

**CITY OF TIFFIN  
SENECA COUNTY, OHIO**

***BASIC  
FINANCIAL STATEMENTS  
(Audited)***

For The Year Ended  
December 31, 2006

**DEBORA J. PINE, DIRECTOR OF FINANCE**





Mary Taylor, CPA  
Auditor of State

City Council  
City of Tiffin  
P.O. Box 455  
51 East Market St.  
Tiffin, Ohio 44883-0455

We have reviewed the *Independent Auditors' Report* of the City of Tiffin, Seneca County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Tiffin is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

September 14, 2007

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**CITY OF TIFFIN, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	2 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities .....	15 - 16
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	21
Statement of Net Assets - Proprietary Fund.....	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.....	23
Statement of Cash Flows - Proprietary Fund .....	24 - 25
Statement of Fiduciary Net Assets - Fiduciary Fund .....	26
Notes to the Basic Financial Statements.....	27 - 55
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	56 - 57
Schedule of Findings and Responses.....	58 - 59

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

Members of Council and Mayor  
City of Tiffin  
51 East Market Street  
Tiffin, Ohio 44883

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.  
August 13, 2007

## CITY OF TIFFIN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

The management's discussion and analysis of the City of Tiffin's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$1,249,425. Net assets of governmental activities increased \$508,752 or 2.16% over 2005 (as restated – see Note 3.B) and net assets of business-type activities increased \$740,673 or 7.00% over 2005.
- General revenues accounted for \$10,016,424 or 81.19% of total governmental activities revenue. Program specific revenues accounted for \$2,319,781 or 18.80% of total governmental activities revenue. Revenues derived from special items accounted for \$1,887 or .01% of total governmental activities revenue.
- The City had \$11,829,340 in expenses related to governmental activities; \$2,319,781 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,509,559 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$10,016,424.
- The general fund had revenues and other financing sources of \$10,439,543 in 2006. This represents an increase of \$749,365 from 2005 revenues. The expenditures and other financing uses of the general fund, which totaled \$10,211,650 in 2006, increased \$691,933 from 2005. The net increase in fund balance for the general fund was \$228,542 or 16.93%.
- Net assets for the business-type activities, which is made up of the Sewer enterprise fund, increased in 2006 by \$740,673. This increase in net assets was due primarily to charges for services and other operating income being sufficient to cover expenses.
- In the general fund, the actual revenues and other financing sources were \$35,614 more than in the final budget and actual expenditures and other financing uses were \$767,151 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$491,500 from the original to the final budget. Budgeted expenditures and other financing uses increased \$135,212 from the original to the final budget due primarily to an increase in the cost of security of persons and property expenditures.

#### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.



## CITY OF TIFFIN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

#### **Reporting the City as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

**Governmental activities** - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**Business-type activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer operations are reported here.

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

##### *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

## **CITY OF TIFFIN, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006**

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's only major governmental fund is the general fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17-21 of this report.

#### ***Proprietary Funds***

These are two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for sewer activities. All of the City's enterprise fund is considered a major fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City has no internal service funds. The basic proprietary fund financial statements can be found on pages 22-25 of this report.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund types. The basic fiduciary fund financial statement can be found on page 26 of this report.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-55 of this report.

## CITY OF TIFFIN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

#### Government-Wide Financial Analysis

Certain amounts in 2005 have been reclassified to conform with 2006 presentation. The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2006	Restated 2005	2006	2005	2006	Restated 2005
<u>Assets</u>						
Current and other assets	\$ 9,448,622	\$ 8,794,891	\$ 6,788,674	\$ 2,250,725	\$ 16,237,296	\$ 11,045,616
Capital assets, net	<u>19,279,103</u>	<u>19,496,763</u>	<u>13,074,221</u>	<u>13,249,978</u>	<u>32,353,324</u>	<u>32,746,741</u>
Total assets	<u>28,727,725</u>	<u>28,291,654</u>	<u>19,862,895</u>	<u>15,500,703</u>	<u>48,590,620</u>	<u>43,792,357</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	2,615,531	2,957,329	8,379,354	4,819,825	10,994,885	7,777,154
Other liabilities	<u>2,072,907</u>	<u>1,803,790</u>	<u>164,230</u>	<u>102,240</u>	<u>2,237,137</u>	<u>1,906,030</u>
Total liabilities	<u>4,688,438</u>	<u>4,761,119</u>	<u>8,543,584</u>	<u>4,922,065</u>	<u>13,232,022</u>	<u>9,683,184</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	18,365,964	18,442,302	10,964,350	8,629,978	29,330,314	27,072,280
Restricted	4,051,635	883,450	-	-	4,051,635	883,450
Unrestricted	<u>1,621,688</u>	<u>4,204,783</u>	<u>354,961</u>	<u>1,948,660</u>	<u>1,976,649</u>	<u>6,153,443</u>
Total net assets	<u>\$ 24,039,287</u>	<u>\$ 23,530,535</u>	<u>\$ 11,319,311</u>	<u>\$ 10,578,638</u>	<u>\$ 35,358,598</u>	<u>\$ 34,109,173</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$35,358,598. At year-end, net assets were \$24,039,287 and \$11,319,311 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 66.58% of total assets. Capital assets include land, construction in progress, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$18,365,964 and \$10,964,350 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$4,051,635, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,621,688 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF TIFFIN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	<b>Change in Net Assets</b>					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Restated</u>	
	<u>2006</u>	<u>Restated 2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>Restated 2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,279,816	\$ 623,112	\$ 3,142,484	\$ 2,852,887	\$ 4,422,300	\$ 3,475,999
Operating grants and contributions	848,278	1,879,267	-	-	848,278	1,879,267
Capital grants and contributions	191,687	-	-	-	191,687	-
Total program revenues	<u>2,319,781</u>	<u>2,502,379</u>	<u>3,142,484</u>	<u>2,852,887</u>	<u>5,462,265</u>	<u>5,355,266</u>
General revenues:						
Property taxes	1,260,326	912,592	-	-	1,260,326	912,592
Income taxes	7,268,813	6,624,191	-	-	7,268,813	6,624,191
Unrestricted grants and entitlements	850,490	829,340	-	-	850,490	829,340
Investment earnings	217,070	310,787	75,095	66,034	292,165	376,821
Miscellaneous	419,725	678,424	16,916	-	436,641	678,424
Total general revenues	<u>10,016,424</u>	<u>9,355,334</u>	<u>92,011</u>	<u>66,034</u>	<u>10,108,435</u>	<u>9,421,368</u>
Total revenues	<u>12,336,205</u>	<u>11,857,713</u>	<u>3,234,495</u>	<u>2,918,921</u>	<u>15,570,700</u>	<u>14,776,634</u>
Expenses:						
General government	2,808,463	2,337,272	-	-	2,808,463	2,337,272
Security of persons and property	6,422,390	6,204,845	-	-	6,422,390	6,204,845
Transportation	1,505,686	1,646,616	-	-	1,505,686	1,646,616
Community environment	464,510	336,797	-	-	464,510	336,797
Leisure time activity	436,930	464,681	-	-	436,930	464,681
Economic development	81,556	37,434	-	-	81,556	37,434
Urban redevelopment and housing	59,247	121,832	-	-	59,247	121,832
Interest and fiscal charges	50,558	49,594	-	-	50,558	49,594
Sewer	-	-	2,493,822	2,323,252	2,493,822	2,323,252
Total expenses	<u>11,829,340</u>	<u>11,199,071</u>	<u>2,493,822</u>	<u>2,323,252</u>	<u>14,323,162</u>	<u>13,522,323</u>
Increase in net assets before special items and transfers	506,865	658,642	740,673	595,669	1,247,538	1,254,311
Special item	1,887	-	-	-	1,887	-
Transfers	-	(2,678)	-	2,678	-	-
Change in net assets	508,752	655,964	740,673	598,347	1,249,425	1,254,311
Net assets at beginning of year	<u>23,530,535</u>	<u>22,874,571</u>	<u>10,578,638</u>	<u>9,980,291</u>	<u>34,109,173</u>	<u>32,854,862</u>
Net assets at end of year	<u>\$ 24,039,287</u>	<u>\$ 23,530,535</u>	<u>\$ 11,319,311</u>	<u>\$ 10,578,638</u>	<u>\$ 35,358,598</u>	<u>\$ 34,109,173</u>

## CITY OF TIFFIN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

#### Governmental Activities

Governmental activities net assets increased \$508,752 in 2006.

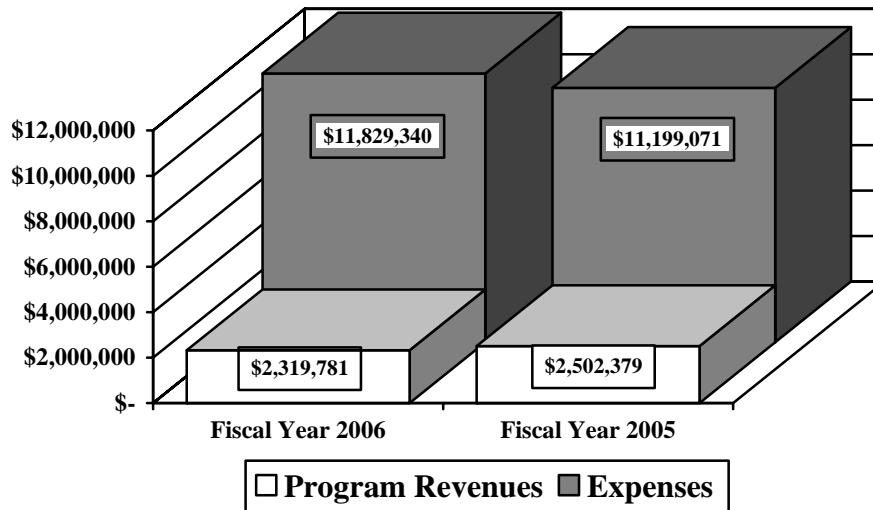
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,422,390 of the total expenses of the City. These expenses were partially funded by \$539,190 in direct charges to users of the services. Transportation expenses totaled \$1,505,686. Transportation expenses were partially funded by \$40,950 in direct charges to users of the services, \$742,722 in operating grants and contributions and \$191,687 in capital grants and contributions.

The state and federal government contributed to the City a total of \$848,278 in operating grants and contributions and \$191,687 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$742,222 subsidized transportation programs, \$76,000 subsidized community environment programs and \$29,556 subsidized leisure-time activities programs. The entire amount of capital grants and contributions subsidized transportation programs.

General revenues totaled \$10,016,424, and amounted to 81.19% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,529,139. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$850,490.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities – Program Revenues vs. Total Expenses**



**CITY OF TIFFIN, OHIO**

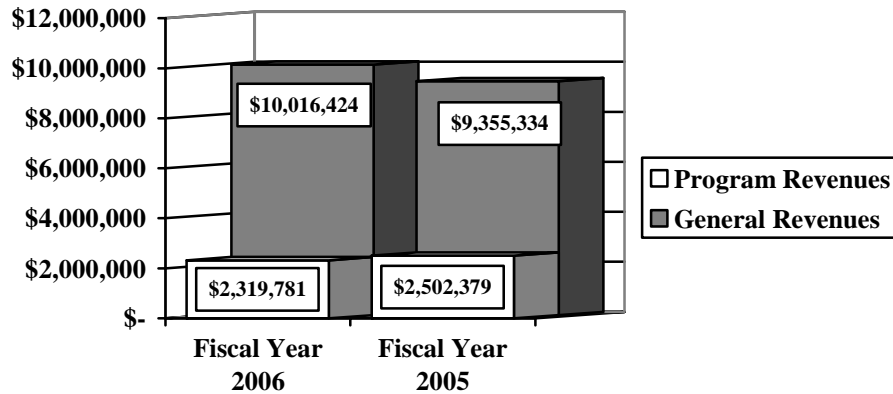
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 2,808,463	\$ 2,159,130	\$ 2,337,272	\$ 2,184,675
Security of persons and property	6,422,390	5,883,200	6,204,845	5,615,483
Transportation	1,505,686	530,327	1,646,616	712,172
Community environment	464,510	373,668	336,797	(134,167)
Leisure time activity	436,930	371,873	464,681	427,824
Economic development	81,556	81,556	37,434	37,434
Urban redevelopment and housing	59,247	59,247	121,832	(196,323)
Interest and fiscal charges	<u>50,558</u>	<u>50,558</u>	<u>49,594</u>	<u>49,594</u>
<b>Total</b>	<b><u>\$ 11,829,340</u></b>	<b><u>\$ 9,509,559</u></b>	<b><u>\$ 11,199,071</u></b>	<b><u>\$ 8,696,692</u></b>

The dependence upon general revenues for governmental activities is apparent, with 80.39% of expenses supported through taxes and other general revenues. The graph below shows the governmental activities general and program revenues for fiscal years 2006 and 2005.

**Governmental Activities – General and Program Revenues**



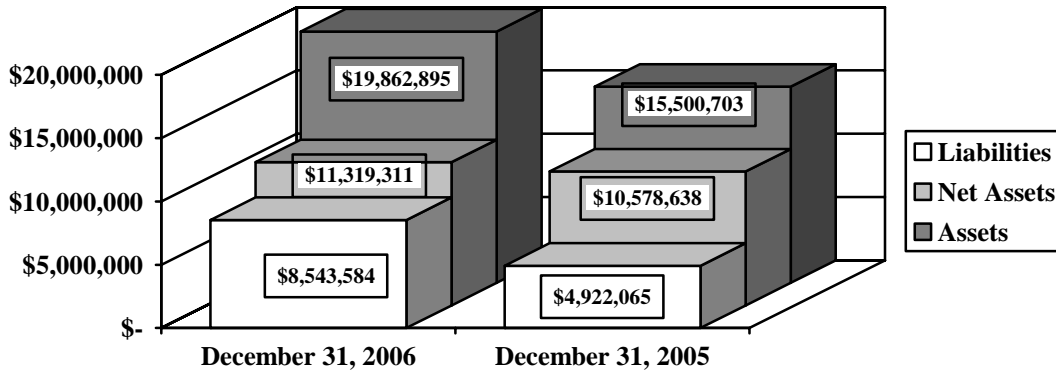
**CITY OF TIFFIN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**Business-type Activities**

Business-type activities include the sewer enterprise fund. This program had program revenues of \$3,142,484 general revenues of \$92,011 and expenses of \$2,493,822 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business – Type Activities**



**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Certain amounts in 2005 have been reclassified to conform with 2006 presentation.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$4,273,671 which is \$257,505 greater than last year's total of \$4,016,166. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/06</u>	Fund Balances <u>12/31/05</u>	<u>Increase</u>
Major fund:			
General	\$ 1,578,397	\$ 1,349,855	\$ 228,542
Other nonmajor governmental funds	<u>2,695,274</u>	<u>2,666,311</u>	<u>28,963</u>
Total	<u>\$ 4,273,671</u>	<u>\$ 4,016,166</u>	<u>\$ 257,505</u>

**CITY OF TIFFIN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006

***General Fund***

The City's general fund balance increased \$228,542, primarily due to increases in investment revenue, taxes and charges for services. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 7,914,807	\$ 7,664,565	3.26 %
Charges for services	521,528	410,223	27.13 %
Licenses and permits	31,258	28,420	9.99 %
Fines and forfeitures	387,605	364,802	6.25 %
Investment income	172,318	84,187	104.68 %
Intergovernmental	1,096,128	1,087,673	0.78 %
Other	<u>304,289</u>	<u>50,308</u>	504.85 %
Total	<u>\$ 10,427,933</u>	<u>\$ 9,690,178</u>	7.61 %

Tax revenue represents 75.90% of all general fund revenue. Tax revenue increased by 3.26% over prior year. The increase in other revenue is due to an increase in refunds and reimbursements collected during 2006. Investment income increased 104.68% due to an increase in interest rates. Charges for services increased 27.13% due to an increase in ambulance services. All other revenue remained comparable to 2005.

The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 2,576,474	\$ 2,275,438	13.23 %
Security of persons and property	6,053,547	5,796,909	4.43 %
Community environment	<u>202,820</u>	<u>196,467</u>	3.23 %
Total	<u>\$ 8,832,841</u>	<u>\$ 8,268,814</u>	6.82 %

All expenditures remained comparable to 2005. The largest expenditure line item, security of persons and property, increased, which is primarily attributed to wage and benefit increases.

***Budgeting Highlights***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.



**CITY OF TIFFIN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

In the general fund, the actual revenues and other financing sources were \$35,614 more than in the final budget and actual expenditures and other financing uses were \$767,151 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$491,500 from the original to the final budget. Budgeted expenditures and other financing uses increased \$135,212 from the original to the final budget due primarily to an increase in the cost of security of persons and property expenditures.

***Proprietary Fund***

The City's proprietary fund provides the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the City had \$32,353,324 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure. Of this total, \$19,279,103 was reported in governmental activities and \$13,074,221 was reported in business-type activities. There has been a reclassification between the certain amounts reported as vehicles and infrastructure at December 31, 2005 in the governmental activities (see Note 10). This reclassification did not effect the total capital assets, net of the governmental activities at December 31, 2005. The following table shows fiscal 2006 balances compared to 2005:

**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 3,109,650	\$ 3,188,030	\$ 241,940	\$ 241,940	\$ 3,351,590	\$ 3,429,970
Buildings and improvements	2,638,672	2,417,128	2,422,885	2,510,350	5,061,557	4,927,478
Machinery & equipment	770,355	884,459	118,437	118,861	888,792	1,003,320
Furniture & fixtures	91,251	105,556	6,813	8,453	98,064	114,009
Vehicles	1,781,353	1,877,471	171,888	244,236	1,953,241	2,121,707
Infrastructure	10,887,822	11,024,119	9,854,304	10,126,138	20,742,126	21,150,257
Construction in progress	-	-	257,954	-	257,954	-
<b>Totals</b>	<b><u>\$19,279,103</u></b>	<b><u>\$19,496,763</u></b>	<b><u>\$13,074,221</u></b>	<b><u>\$13,249,978</u></b>	<b><u>\$32,353,324</u></b>	<b><u>\$32,746,741</u></b>

The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 56.47% of the City's total governmental capital assets.

The City's largest business-type capital asset category is infrastructure that primarily includes sewer lines and drains. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 75.37% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

## CITY OF TIFFIN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

#### *Debt Administration*

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	2006	(Restated) 2005
Compensated absences	\$ 1,104,073	\$ 1,032,329
Special assessment anticipation notes	400,000	500,000
Capital lease payable	38,139	49,461
Post-closure landfill obligation	598,319	870,539
Special assessment bonds	<u>475,000</u>	<u>505,000</u>
Total long-term obligations	<u>\$ 2,615,531</u>	<u>\$ 2,957,329</u>

	Business-type Activities	
	2006	2005
General obligation bonds	\$ 2,155,000	\$ 2,620,000
Bond anticipation notes	6,000,000	2,000,000
Compensated absences	<u>224,354</u>	<u>199,825</u>
Total long-term obligations	<u>\$ 8,379,354</u>	<u>\$ 4,819,825</u>

See Note 12 to the financial statements for more detail on the City's long term obligations.

#### **Economic Outlook**

The City of Tiffin's economy has a significant manufacturing base with operations of industrial corporations, including, among others, American Standard Inc. and Ameriwood Industries, Toledo Molding & Die Inc., and National Machinery LLC. The City is also the home of two small glass manufacturing concerns where the custom glassblowing and cutting trades for which the City was well-known in the past are carried on today.

Two industrial parks have been created to foster and facilitate economic development and growth. The City's Northstar Industrial Park, a 50-acre tract opened in 1992, is now fully developed and occupied by seven small manufacturers that have invested in excess of \$30 million in buildings, facilities, and equipment, created approximately 500 jobs and have an annual payroll of more than \$4 million. Eagle Park Business Park, opened in 2002, has attracted two manufacturers, American Fine Sinter Company, Ltd. And Toledo Molding & Die, Inc. which have invested approximately \$36 million in buildings, facilities and equipment and provide approximately 375 jobs and an \$11 million annual payroll.

The City also serves as a commercial and retail center for the County. In March 2006, Wal-Mart Corporation opened a "Super Wal-Mart" store. That store was constructed at a cost of approximately \$7.5 million and is now operated by a staff of 220 employees.

In July, 2006, Mercy Hospital of Tiffin began construction of a new campus that will include a 140,000 square foot hospital building and a 60,000 square foot medical office building on another site that has been annexed to the City. Those facilities are estimated to cost in excess of \$60 million and are expected to be completed in the summer of 2008.

## **CITY OF TIFFIN, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Heidelberg College and Tiffin University are also located in the City. Heidelberg College is a liberal arts college founded in 1850, has approximately 1,000 full-time students enrolled in courses leading to A.B., B.S., Bachelor of Music and Master of Education degrees. Tiffin University offers Bachelor's and Associate degrees in accounting, business and criminal justice and Master's degrees in business and has an enrollment of approximately 1,300 full time students.

#### **Contacting the City's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Deb Pine, Finance Director, City of Tiffin, P.O. Box 455, Tiffin, Ohio 44883-0455 or e-mail at [financedirector@tiffinohio.gov](mailto:financedirector@tiffinohio.gov) or telephone at (419) 448-5403.

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF TIFFIN, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 3,632,774	\$ 5,748,824	\$ 9,381,598
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	1,736,190	-	1,736,190
Real and other taxes . . . . .	1,447,438	-	1,447,438
Accounts . . . . .	136,350	948,186	1,084,536
Accrued interest . . . . .	51,127	5,274	56,401
Special assessments . . . . .	761,822	-	761,822
Due from other governments . . . . .	1,400,575	-	1,400,575
Loans receivable . . . . .	130,626	-	130,626
Prepayments . . . . .	107,799	17,736	125,535
Materials and supplies inventory. . . . .	43,921	23,525	67,446
Unamortized bond issue costs . . . . .	-	45,129	45,129
Capital assets:			
Land and construction in progress. . . . .	3,109,650	499,894	3,609,544
Depreciable capital assets, net . . . . .	<u>16,169,453</u>	<u>12,574,327</u>	<u>28,743,780</u>
Total capital assets, net . . . . .	<u>19,279,103</u>	<u>13,074,221</u>	<u>32,353,324</u>
Total assets. . . . .	<u>28,727,725</u>	<u>19,862,895</u>	<u>48,590,620</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	199,452	65,476	264,928
Accrued wages and benefits . . . . .	212,941	32,663	245,604
Due to other governments . . . . .	478,332	45,849	524,181
Deferred revenue. . . . .	1,170,778	-	1,170,778
Accrued interest payable. . . . .	11,404	20,242	31,646
Long-term liabilities:			
Due within one year . . . . .	1,097,447	6,568,423	7,665,870
Due in more than one year . . . . .	<u>1,518,084</u>	<u>1,810,931</u>	<u>3,329,015</u>
Total liabilities . . . . .	<u>4,688,438</u>	<u>8,543,584</u>	<u>13,232,022</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	18,365,964	10,964,350	29,330,314
Restricted for:			
Capital projects. . . . .	891,068	-	891,068
Debt service . . . . .	713,969	-	713,969
Transportation projects. . . . .	595,291	-	595,291
Leisure-time activities . . . . .	37,493	-	37,493
Security of persons and property. . . . .	411,551	-	411,551
Community environment. . . . .	302,008	-	302,008
Economic development and assistance . . . . .	446,031	-	446,031
Urban redevelopment and housing. . . . .	186,721	-	186,721
Permanent fund:			
Nonexpendable . . . . .	25,000	-	25,000
Expendable. . . . .	4,837	-	4,837
Other purposes . . . . .	437,666	-	437,666
Unrestricted. . . . .	<u>1,621,688</u>	<u>354,961</u>	<u>1,976,649</u>
Total net assets . . . . .	<u>\$ 24,039,287</u>	<u>\$ 11,319,311</u>	<u>\$ 35,358,598</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 2,808,463	\$ 649,333	\$ -	\$ -
Security of persons and property. . . . .	6,422,390	539,190	-	-
Transportation . . . . .	1,505,686	40,950	742,722	191,687
Community environment. . . . .	464,510	14,842	76,000	-
Leisure time activity. . . . .	436,930	35,501	29,556	-
Economic development and assistance. . . . .	81,556	-	-	-
Urban redevelopment and housing . . . . .	59,247	-	-	-
Interest and fiscal charges. . . . .	50,558	-	-	-
Total governmental activities . . . . .	<u>11,829,340</u>	<u>1,279,816</u>	<u>848,278</u>	<u>191,687</u>
<b>Business-Type Activities:</b>				
Sewer . . . . .	<u>2,493,822</u>	<u>3,142,484</u>	<u>-</u>	<u>-</u>
Total business-type activities . . . . .	<u>2,493,822</u>	<u>3,142,484</u>	<u>-</u>	<u>-</u>
Total primary government. . . . .	<u>\$ 14,323,162</u>	<u>\$ 4,422,300</u>	<u>\$ 848,278</u>	<u>\$ 191,687</u>

**General Revenues:**

Property taxes levied for:

- General purposes. . . . .
- Police pension. . . . .
- Fire pension. . . . .

Income taxes levied for:

- General purposes. . . . .
- Grants and entitlements not restricted to specific programs . . . . .
- Refunds and reimbursements. . . . .
- Investment earnings . . . . .
- Miscellaneous . . . . .

Total general revenues. . . . .

Special item - gain on the sale of capital assets . . . . .

Total general revenues and special item. . . . .

Change in net assets. . . . .

**Net assets at beginning of year (restated) . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (2,159,130)	\$ -	\$ (2,159,130)
(5,883,200)	-	(5,883,200)
(530,327)	-	(530,327)
(373,668)	-	(373,668)
(371,873)	-	(371,873)
(81,556)	-	(81,556)
(59,247)	-	(59,247)
(50,558)	-	(50,558)
<u>(9,509,559)</u>	<u>-</u>	<u>(9,509,559)</u>
<u>-</u>	<u>648,662</u>	<u>648,662</u>
<u>-</u>	<u>648,662</u>	<u>648,662</u>
<u>(9,509,559)</u>	<u>648,662</u>	<u>(8,860,897)</u>
1,072,882	-	1,072,882
93,722	-	93,722
93,722	-	93,722
7,268,813	-	7,268,813
850,490	-	850,490
352,601	-	352,601
217,070	75,095	292,165
67,124	16,916	84,040
10,016,424	92,011	10,108,435
<u>1,887</u>	<u>-</u>	<u>1,887</u>
<u>10,018,311</u>	<u>92,011</u>	<u>10,110,322</u>
508,752	740,673	1,249,425
<u>23,530,535</u>	<u>10,578,638</u>	<u>34,109,173</u>
<u>\$ 24,039,287</u>	<u>\$ 11,319,311</u>	<u>\$ 35,358,598</u>



**CITY OF TIFFIN, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,165,388	\$ 2,467,386	\$ 3,632,774
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	1,736,190	-	1,736,190
Real and other taxes. . . . .	1,235,618	211,820	1,447,438
Accounts . . . . .	119,340	17,010	136,350
Accrued interest . . . . .	50,577	550	51,127
Special assessments. . . . .	-	761,822	761,822
Due from other governments. . . . .	462,294	938,281	1,400,575
Loans receivable . . . . .	-	130,626	130,626
Prepayments. . . . .	62,755	45,044	107,799
Materials and supplies inventory . . . . .	13,698	30,223	43,921
<b>Total assets . . . . .</b>	<u>\$ 4,845,860</u>	<u>\$ 4,602,762</u>	<u>\$ 9,448,622</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 32,451	\$ 167,001	\$ 199,452
Accrued wages and benefits. . . . .	187,084	25,857	212,941
Due to other governments. . . . .	438,627	39,705	478,332
Deferred revenue . . . . .	2,609,301	1,674,925	4,284,226
<b>Total liabilities . . . . .</b>	<u>3,267,463</u>	<u>1,907,488</u>	<u>5,174,951</u>
<b>Fund Balances:</b>			
Reserved for encumbrances. . . . .	283,539	206,092	489,631
Reserved for prepayments . . . . .	62,755	45,044	107,799
Reserved for materials and supplies inventory . . . . .	13,698	30,223	43,921
Reserved for loans receivable . . . . .	-	130,626	130,626
Reserved for tax advances . . . . .	15,115	2,592	17,707
Reserved for Oakley Park trust. . . . .	-	25,000	25,000
Unreserved, undesignated, reported in:			
General fund. . . . .	1,203,290	-	1,203,290
Special revenue funds. . . . .	-	1,616,701	1,616,701
Debt service funds. . . . .	-	69,069	69,069
Capital projects funds. . . . .	-	565,640	565,640
Permanent fund . . . . .	-	4,287	4,287
<b>Total fund balances . . . . .</b>	<u>1,578,397</u>	<u>2,695,274</u>	<u>4,273,671</u>
<b>Total liabilities and fund balances. . . . .</b>	<u>\$ 4,845,860</u>	<u>\$ 4,602,762</u>	<u>\$ 9,448,622</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Total governmental fund balances</b>		\$	4,273,671
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			19,279,103
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes	\$	258,954	
Income taxes		1,070,637	
Special assessments		761,822	
Intergovernmental revenues		982,463	
Accrued interest		39,572	
		<hr/>	
Total			3,113,448
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(11,404)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:			
Capital lease payable		38,139	
Compensated absences		1,104,073	
Landfill post-closure		598,319	
Special assessment bonds		475,000	
Special assessment anticipation notes		400,000	
		<hr/>	
Total			<u>(2,615,531)</u>
<b>Net assets of governmental activities</b>		\$	<u>24,039,287</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Municipal income taxes . . . . .	\$ 7,006,978	\$ -	\$ 7,006,978
Property and other taxes . . . . .	907,829	156,418	1,064,247
Charges for services . . . . .	521,528	35,501	557,029
Licenses and permits . . . . .	31,258	-	31,258
Fines and forfeitures . . . . .	387,605	263,380	650,985
Intergovernmental . . . . .	1,096,128	1,051,611	2,147,739
Special assessments . . . . .	-	103,946	103,946
Investment income . . . . .	172,318	24,148	196,466
Refunds and reimbursements . . . . .	289,747	62,854	352,601
Other . . . . .	14,542	70,475	85,017
Total revenues . . . . .	<u>10,427,933</u>	<u>1,768,333</u>	<u>12,196,266</u>
<b>Expenditures:</b>			
Current:			
General government . . . . .	2,576,474	129,614	2,706,088
Security of persons and property . . . . .	6,053,547	170,140	6,223,687
Transportation . . . . .	-	896,929	896,929
Community environment . . . . .	202,820	258,411	461,231
Leisure time activity . . . . .	-	356,963	356,963
Economic development and assistance . . . . .	-	81,556	81,556
Urban redevelopment and housing . . . . .	-	59,247	59,247
Capital outlay . . . . .	-	765,734	765,734
Debt service:			
Principal retirement . . . . .	-	813,542	813,542
Interest and fiscal charges . . . . .	-	49,390	49,390
Total expenditures . . . . .	<u>8,832,841</u>	<u>3,581,526</u>	<u>12,414,367</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,595,092</u>	<u>(1,813,193)</u>	<u>(218,101)</u>
<b>Other financing sources (uses):</b>			
Sale of capital assets . . . . .	11,610	78,239	89,849
Sale of notes . . . . .	-	400,000	400,000
Transfers in . . . . .	-	1,709,421	1,709,421
Transfers (out) . . . . .	(1,378,809)	(330,612)	(1,709,421)
Total other financing sources (uses) . . . . .	<u>(1,367,199)</u>	<u>1,857,048</u>	<u>489,849</u>
Net change in fund balances . . . . .	227,893	43,855	271,748
<b>Fund balances at beginning of year . . . . .</b>	1,349,855	2,666,311	4,016,166
<b>Increase (decrease) in reserve for inventory . . . . .</b>	649	(14,892)	(14,243)
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,578,397</u>	<u>\$ 2,695,274</u>	<u>\$ 4,273,671</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

**Net change in fund balances - total governmental funds** \$ 271,748

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Government funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets are allocated over their estimated useful lives as  
depreciation expense.

Capital outlay	\$ 954,528	
Depreciation expense	(1,043,244)	
Total		(88,716)

Governmental funds only report the disposal of capital assets  
to the extent proceeds are received from the sale. In the  
statement of activities, a gain or loss is reported for each disposal. (128,944)

Governmental funds report expenditures for inventory when  
purchased. However in the statement of activities, they are  
reported as an expense when consumed. (14,243)

Revenues in the statement of activities that do not provide  
current financial resources are not reported as revenues in  
the funds.

Property taxes	196,079	
Income taxes	261,835	
Special assessments	(63,401)	
Accrued interest	20,604	
Intergovernmental	(286,840)	
Total		128,277

Repayment of bonds, notes, landfill and lease principal are expenditures  
in the governmental funds, but the repayments reduces long-term  
liabilities in the statement of net assets. 813,542

Proceeds of notes are reported as revenue in the  
governmental funds, but increase long-term liabilities in the  
statement of activities. (400,000)

In the statement of activities, interest is accrued on  
outstanding bonds and notes, whereas in governmental  
funds, an interest expenditure is reported when due. (1,168)

Some expenses reported in the statement of activities, such  
as compensated absences, do not require the use of current  
financial resources and therefore are not reported as expenditures  
in governmental funds. (71,744)

**Change in net assets of governmental activities** \$ 508,752

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 6,670,885	\$ 7,000,000	\$ 7,055,057	\$ 55,057
Property and other taxes . . . . .	905,810	950,500	951,721	1,221
Charges for services . . . . .	504,795	529,700	557,388	27,688
Licenses and permits. . . . .	27,130	28,470	31,258	2,788
Fines and forfeitures. . . . .	326,875	343,000	392,110	49,110
Intergovernmental . . . . .	1,210,175	1,269,880	1,155,833	(114,047)
Investment income . . . . .	154,385	162,000	165,633	3,633
Refunds and reimbursements. . . . .	140,850	147,800	158,524	10,724
Other . . . . .	7,050	7,400	5,230	(2,170)
Total revenues. . . . .	<u>9,947,955</u>	<u>10,438,750</u>	<u>10,472,754</u>	<u>34,004</u>
<b>Expenditures:</b>				
Current:				
General government. . . . .	3,054,282	3,081,314	2,651,289	430,025
Security of persons and property . . . . .	6,523,942	6,630,431	6,289,625	340,806
Community environment . . . . .	216,864	218,555	210,426	8,129
Total expenditures . . . . .	<u>9,795,088</u>	<u>9,930,300</u>	<u>9,151,340</u>	<u>778,960</u>
Excess of revenues over expenditures. . . . .	<u>152,867</u>	<u>508,450</u>	<u>1,321,414</u>	<u>812,964</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets. . . . .	4,765	5,000	11,610	6,610
Transfers in. . . . .	9,530	10,000	5,000	(5,000)
Transfers (out). . . . .	(1,372,000)	(1,372,000)	(1,383,809)	(11,809)
Total other financing sources (uses). . . . .	<u>(1,357,705)</u>	<u>(1,357,000)</u>	<u>(1,367,199)</u>	<u>(10,199)</u>
Net change in fund balance . . . . .	(1,204,838)	(848,550)	(45,785)	802,765
<b>Fund balance at beginning of year. . . . .</b>	597,415	597,415	597,415	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>297,768</u>	<u>297,768</u>	<u>297,768</u>	<u>-</u>
<b>Fund balance (deficit) at end of year. . . . .</b>	<u>\$ (309,655)</u>	<u>\$ 46,633</u>	<u>\$ 849,398</u>	<u>\$ 802,765</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 DECEMBER 31, 2006

	<b>Business-Type Activities Sewer</b>
	<hr/>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . .	\$ 5,748,824
Receivables (net of allowance for uncollectibles):	
Accounts. . . . .	948,186
Accrued interest. . . . .	5,274
Prepayments. . . . .	17,736
Materials and supplies inventory. . . . .	23,525
Unamortized bond issue costs . . . . .	45,129
	<hr/>
Total current assets . . . . .	6,788,674
	<hr/>
Noncurrent assets:	
Capital assets:	
Land and construction in progress. . . . .	499,894
Depreciable capital assets, net . . . . .	12,574,327
Total capital assets, net . . . . .	13,074,221
	<hr/>
Total assets. . . . .	19,862,895
	<hr/>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	65,476
Accrued wages and benefits. . . . .	32,663
Due to other governments. . . . .	45,849
Accrued interest payable . . . . .	20,242
Bond anticipation notes payable . . . . .	6,000,000
Current portion of compensated absences . . . . .	83,423
Current portion of general obligation bonds . . . . .	485,000
	<hr/>
Total current liabilities . . . . .	6,732,653
	<hr/>
Long-term liabilities:	
Compensated absences. . . . .	140,931
General obligation bonds . . . . .	1,670,000
Total long-term liabilities. . . . .	1,810,931
	<hr/>
Total liabilities . . . . .	8,543,584
	<hr/>
<b>Net assets:</b>	
Invested in capital assets, net of related debt. . . . .	10,964,350
Unrestricted . . . . .	354,961
	<hr/>
Total net assets . . . . .	\$ 11,319,311
	<hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<b>Business-Type Activities Sewer</b>
	<u>                    </u>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 3,140,889
Tap-in fees. . . . .	1,595
Other. . . . .	<u>7,033</u>
Total operating revenues . . . . .	<u>3,149,517</u>
<b>Operating expenses:</b>	
Personal services . . . . .	1,222,424
Contract services . . . . .	245,212
Materials and supplies . . . . .	117,120
Utilities . . . . .	161,265
Depreciation . . . . .	471,937
Other . . . . .	<u>45,258</u>
Total operating expenses. . . . .	<u>2,263,216</u>
Operating income . . . . .	<u>886,301</u>
<b>Nonoperating revenues (expenses):</b>	
Interest revenue. . . . .	75,095
Loss on disposal of capital assets. . . . .	(1,009)
Special assessments. . . . .	9,883
Interest expense and fiscal charges . . . . .	<u>(229,597)</u>
Total nonoperating revenues (expenses) . . . . .	<u>(145,628)</u>
Change in net assets . . . . .	740,673
<b>Net assets at beginning of year . . . . .</b>	<u>10,578,638</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 11,319,311</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<b>Business-Type Activities Sewer</b>	
	<hr/>	
<b>Cash flows from operating activities:</b>		
Cash received from customers . . . . .	\$	2,951,840
Cash received from tap-in fees. . . . .		1,595
Cash received from other operations. . . . .		6,419
Cash payments for personal services . . . . .		(1,197,828)
Cash payments for contract services . . . . .		(189,762)
Cash payments for materials and supplies . . . . .		(123,159)
Cash payments for utilities. . . . .		(161,265)
Cash payments for other expenses. . . . .		(45,375)
		<hr/>
Net cash provided by operating activities. . . . .		1,242,465
		<hr/>
<b>Cash flows from noncapital financing activities:</b>		
Cash received special assessments. . . . .		9,883
		<hr/>
Net cash provided by noncapital financing activities . . . . .		9,883
		<hr/>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets . . . . .		(297,189)
Principal retirement on bonds and notes. . . . .		(2,465,000)
Interest paid on bonds and notes . . . . .		(216,634)
Sale of bond anticipation notes. . . . .		6,000,000
		<hr/>
Net cash provided by capital and related financing activities . . . . .		3,021,177
		<hr/>
<b>Cash flows from investing activities:</b>		
Interest received . . . . .		86,177
		<hr/>
Net cash provided by investing activities . . . . .		86,177
		<hr/>
Net increase in cash and cash equivalents. . . . .		4,359,702
		<hr/>
<b>Cash and cash equivalents at beginning of year. . .</b>		1,389,122
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b>5,748,824</b>
		<hr/> <hr/>

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**CITY OF TIFFIN, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<b>Business-Type Activities Sewer</b>	
	<hr/>	
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income . . . . .	\$	886,301
Adjustments:		
Depreciation . . . . .		471,937
Changes in assets and liabilities:		
Increase in materials and supplies inventory. . . . .		(7,263)
Increase in accounts receivable. . . . .		(189,663)
Increase in prepayments . . . . .		(472)
Increase in accounts payable . . . . .		57,029
Increase in accrued wages and benefits . . . . .		777
Decrease in due to other governments . . . . .		(710)
Increase in compensated absences payable. . . . .		24,529
		<hr/>
Net cash provided by operating activities . . . . .	\$	<u>1,242,465</u>

**Non-Cash Transactions:**

During 2006, the Sewer fund received a contributed vehicle from the governmental activities. The cost and accumulated depreciation of the contributed vehicle was \$24,983.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF TIFFIN, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2006

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 126,921
Receivables:	
Accounts . . . . .	<u>1,051</u>
Total assets. . . . .	<u>\$ 127,972</u>
<b>Liabilities:</b>	
Undistributed monies . . . . .	<u>\$ 127,972</u>
Total liabilities . . . . .	<u>\$ 127,972</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 1 - DESCRIPTION OF THE ENTITY AND REPORTING ENTITY**

The City of Tiffin (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City was incorporated as a village in 1835 and became a City under the laws of the State of Ohio in 1850. In 1977 a voter-approved Charter became effective. The Mayor and council are elected by separate ballot from the municipality at large for four-year terms. The Mayor is not a member of council and can only approve or veto council ordinances and resolutions. The Mayor appoints the City Manager. The City Manager appoints all department managers of the City.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City provides police and fire protection within its boundaries, and ambulance protection and fire assistance to adjacent townships by mutual agreement contracts. The City provides basic utilities in the form of wastewater treatment. The City constructs and maintains streets and sidewalks within the City. The City also operates and maintains a park and recreation system.

Component units are legally separate organizations for the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (3) the City is obligated for the debt of the organization. Components units may also include organizations that fiscally dependent on the City in that the City approves their budget, the issuance of their debt or the levying of their taxes. The City has no component units.

The City has not included the City of Tiffin School District, the Tiffin-Seneca Public Library, the Conner Memorial Commission, and the Weller Memorial Commission as it has no control over these operations and are autonomous entities.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The City's significant accounting policies are described below.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except the fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City programs or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detail level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The City's major governmental fund is the general fund:

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balances is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the City are for grants and other resources, debt service, and capital projects of the City whose uses are restricted to a particular purpose.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The City presently does not have an internal service fund. The City's only proprietary major fund is the sewer fund:

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's enterprise fund is:

Sewer Fund - This fund accounts for the financial transactions related to the water treatment service operations of the City.

Fiduciary Funds

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund (Oakley Park Trust Fund) is a permanent trust fund recorded as part of the governmental type activities because the fund supports the City's parks. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for funds maintained by the Municipal Court, State Patrol transfer account, unclaimed monies and payroll income tax and tax increment financial payments collected on behalf and due to other governments.

**C. Measurement Focus**

Government Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Fund Financial Statements

All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (see Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, property taxes available as an advance, fines and forfeitures, interest, grants, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance 2007 operations, have been recorded as deferred revenue. Special assessments and grants and entitlements received before the eligibility requirements are meant are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Data**

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund, department, and object level. The legal level of budgetary control was established at the object level within each department, the City has elected to present budgetary statement comparisons at the fund and function level of expenditures. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund, department and object level appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basis financial statements:

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.



**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificate of estimated resources issued during 2006.

Appropriations

A temporary appropriation resolution to control expenditures may be passed on or about January 1 of each year for the period of January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution fixes spending authority at the fund, department, and object level for all funds. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Council legally enacted several supplemental appropriation ordinances during the year. The budget figures which appear in the statement of budgetary comparisons present the original and final appropriation amounts including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be re-appropriated.

**F. Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund balance integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the basic financial statements.

During 2006, investments were limited to repurchase agreements and nonnegotiable certificates of deposit.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investments contracts such as repurchased agreements and nonnegotiable certificates of deposit are reported at cost.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$172,318, which included \$135,027 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

**G. Inventories of Materials and Supplies**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expense when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

**I. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method (with a salvage value of ten percent) over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	40 years	40 years
Machinery & Equipment	8-20 years	8-20 years
Furniture & Fixtures	5-15 years	5-15 years
Vehicles	3-5 years	3-5 years
Infrastructure	80 years	80 years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. The City had no interfund receivables/payable at December 31, 2006.

**K. Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributed to services already rendered and are not contingent on a specific event that is outside the control of the City.

The City reports compensated absences in accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, "Accounting for Compensated Absences." Vacation benefits is accrued if as a liability as the benefits are earned if the employees' rights to payment are attributable to services already rendered; and it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. These amounts are recorded in the account "Compensated absences" in the fund from which the employees are paid.

Sick leave benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for unused sick leave for all employees who are older than fifty (50 years) old or greater with at least ten (10) years of accumulated service.

The entire compensated absence liability is reported on the government-wide financial statements.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within thirty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**M. Fund Balance Reserves**

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, prepayments, loans receivable, tax advances and the Oakley Park trust.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are sewer charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**P. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grant or outside contributions of resources restricted to capital acquisition and construction. The City had no contributions of capital from outside sources for the year ended December 31, 2006.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Q. Interfund Activity**

Transfers between governmental and business-type activities on the governmental-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expense in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of Council and that are either unusual in nature or infrequent in occurrence. The City sold two parcels of land for \$78,187 during 2006. These parcels had previously been capitalized in the amount of \$76,300 and, accordingly, a gain on these sales in the amount of \$1,887 was recorded as a special item on the statement of activities. No extraordinary transactions occurred during 2006.

**S. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**T. Bond Discounts, Premiums and Issuance Costs**

Material discounts, premiums, and issuance costs are reported as deferred charges and amortized over the life of the bond using the straight-line method. Any material discounts or premiums (1) are shown as additions to, or deductions from, the account of the bond liability, (2) are amortized using the straight-line method, and (3) are reflected as interest income or expense in the proprietary fund.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

**B. Prior Period Adjustment**

The beginning net assets of the governmental activities have been restated to include a capital lease obligation which had not been reported in prior years. This adjustment did not have an effect on the governmental fund balances of the City as previously reported at December 31, 2005. The capital lease obligation had the following effect on net assets at December 31, 2005:

	Governmental Activities
Net assets, December 31, 2005	\$ 23,579,996
Adjustment for capital lease	(49,461)
Net assets January 1, 2006, restated	\$ 23,530,535

**C. Compliance**

*i.* In noncompliance with Ohio Revised Code Section 5705.39, the City had appropriations exceeding estimated resources at year end for the following fund:

Fund	Excess
Street Maintenance Fund	\$ 29,059

*ii.* In noncompliance with Ohio Revised Code Section 5705.41(D), the City was deficient in certifying expenditures for 32.76% of the transactions tested.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash on Hand**

At year-end \$310 was on hand in the form of drawer change and petty cash.

**B. Deposits with Financial Institutions**

At December 31, 2006, the carrying amount of all City deposits was \$7,239,837, exclusive of the \$2,268,372 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$7,053,750 of the City's bank balance of \$7,526,834 was exposed to custodial risk as discussed below, while \$473,084 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

**C. Investments**

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or <u>less</u>
Repurchase agreement	\$ 2,268,372	\$ 2,268,372
	<u>\$ 2,268,372</u>	<u>\$ 2,268,372</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City's investment policy limits investment portfolio maturities to five years or less.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.



**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	<u>\$2,268,372</u>	<u>100.00%</u>
Total	<u>\$2,268,372</u>	<u>100.00%</u>

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,239,837
Investments	2,268,372
Cash on hand	<u>310</u>
Total	<u>\$ 9,508,519</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,632,774
Business type activities	5,748,824
Agency funds	<u>126,921</u>
Total	<u>\$ 9,508,519</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$1,378,809
Nonmajor governmental funds	<u>330,612</u>
Total	<u>\$1,709,421</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The nongovernmental transfers to other nongovernmental funds is primarily income tax revenue recorded in the primary capital projects fund and transferred to other capital projects funds as needed. Transfers between governmental funds are eliminated on the government-wide financial statements. All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment for 2006 was due January 1, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

If paid annually, payment is due April 30, and if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2006 operations. The receivable is therefore offset by deferred revenue.

The full tax rate applied to real property and tangible personal property for the fiscal year ended December 31, 2006 was \$4.10 per \$1,000 of assessed valuation.

The effective tax rate per \$1,000 of assessed valuation is the same as the voted tax rate.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the 2006 taxes were collected are as follows:

Real Property - 2005 Valuation	Amount
Residential/agricultural	\$ 180,574,000
Commercial/industrial	63,456,270
Public utilities	26,770
Total Real Property	244,057,040
Tangible Personal Property - 2005 Valuation	
General	29,158,017
Public utilities	16,659,360
Total Tangible Personal Property	45,817,377
Total valuation	\$ 289,874,417

**NOTE 7 - LOCAL INCOME TAX**

The City levies a 1.75 percent income tax on substantially all income earned within the City. In addition, City residents employed in municipalities having an income tax less than 1.75 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

The City's income tax ordinance requires a portion of the income tax revenues to be used to finance governmental type capital improvements. As a result, this portion of the revenue is transferred into the capital improvement capital projects fund each year. The remaining income tax proceeds are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due from other governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2006, as well as intended to finance 2006 operations.

A summary of the items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Income taxes	\$ 1,736,190
Real and other taxes	1,447,438
Accounts	136,350
Accrued interest	51,127
Special assessments	761,822
Due from other governments	1,400,575

**Business-Type Activities:**

Accounts	948,186
Accrued interest	5,274

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 9 - INSURANCE**

The City is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted through United Insurance Service and Sky Insurance of Tiffin for property, fleet, crime and liability insurance.

	<u>Per Occurance</u>	<u>Deductibles</u>	<u>Annual Aggregate</u>
Commercial Property (Blanket):			
Building and Contents - Replacement Cost	\$ -	\$ -	\$ 24,525,672
Workers' Compensation	1,000,000	-	-
General Liability	1,000,000	-	3,000,000
Products/Completed Ops	-	-	3,000,000
Personal and Advertising Injury	1,000,000	-	1,000,000
Fire Damage	-	-	100,000
Automobile	-	-	1,000,000
Comprehensive	-	500	-
Collision	-	1,000	-
Medical Payments	-	-	5,000
Umbrella	5,000,000	-	5,000,000
Employee Benefits Liability	1,000,000	-	2,000,000
Fire Vehicles	-	Various	1,850,725
Electronic Data Processing	-	1,000	648,029
Crime-Employee Dishonesty	100,000	-	-

Real Property and contents are 90 percent coinsured. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in reduction in insurance coverage from 2005.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 10 - CAPITAL ASSETS**

The December 31, 2005 balances of accumulated depreciation for vehicles and infrastructure have been restated to correct for an error in the posting of depreciation expense. The balance of accumulated depreciation for vehicles has been decreased by \$249,062 from \$1,881,038 to \$1,631,976 and the balance of accumulated depreciation for infrastructure increased by \$249,062 from \$4,439,217 to \$4,688,279. The restatement did not have an effect on the overall balance of the governmental activities capital assets, net at December 31, 2005.

Capital asset activity for the fiscal year ended December 31, 2006, was as follows:

	Restated Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,188,030	\$ -	\$ (78,380)	\$ 3,109,650
Total capital assets, not being depreciated	<u>3,188,030</u>	<u>-</u>	<u>(78,380)</u>	<u>3,109,650</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	7,144,093	300,570	(5,200)	7,439,463
Machinery & equipment	2,849,723	108,353	(75,585)	2,882,491
Furniture & fixtures	328,492	12,891	(36,147)	305,236
Vehicles	3,509,447	159,459	(188,633)	3,480,273
Infrastructure	<u>15,712,398</u>	<u>373,255</u>	<u>-</u>	<u>16,085,653</u>
Total capital assets, being depreciated	<u>29,544,153</u>	<u>954,528</u>	<u>(305,565)</u>	<u>30,193,116</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(4,726,965)	(78,506)	4,680	(4,800,791)
Machinery & equipment	(1,965,264)	(202,155)	55,283	(2,112,136)
Furniture & fixtures	(222,936)	(23,730)	32,681	(213,985)
Vehicles	(1,631,976)	(229,301)	162,357	(1,698,920)
Infrastructure	<u>(4,688,279)</u>	<u>(509,552)</u>	<u>-</u>	<u>(5,197,831)</u>
Total accumulated depreciation	<u>(13,235,420)</u>	<u>(1,043,244)</u>	<u>255,001</u>	<u>(14,023,663)</u>
Total capital assets, being depreciated, net	<u>16,308,733</u>	<u>(88,716)</u>	<u>(50,564)</u>	<u>16,169,453</u>
Governmental activities capital assets, net	<u>\$ 19,496,763</u>	<u>\$ (88,716)</u>	<u>\$ (128,944)</u>	<u>\$ 19,279,103</u>

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 10 - CAPITAL ASSETS - (Continued)**

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<b>Business-Type Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 241,940	\$ -	\$ -	\$ 241,940
Construction in progress	<u>-</u>	<u>257,954</u>	<u>-</u>	<u>257,954</u>
Total capital assets, not being depreciated	<u>241,940</u>	<u>257,954</u>	<u>-</u>	<u>499,894</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	10,086,050	-	(5,974)	10,080,076
Machinery & equipment	505,562	28,832	(1,922)	532,472
Furniture & fixtures	57,389	-	-	57,389
Vehicles	865,156	29,284	-	894,440
Infrastructure	<u>13,160,530</u>	<u>6,102</u>	<u>(2,562)</u>	<u>13,164,070</u>
Total capital assets, being depreciated	<u>24,674,687</u>	<u>64,218</u>	<u>(10,458)</u>	<u>24,728,447</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(7,575,700)	(81,491)	-	(7,657,191)
Machinery & equipment	(386,701)	(34,780)	7,446	(414,035)
Furniture & fixtures	(48,936)	(1,640)	-	(50,576)
Vehicles	(620,920)	(101,632)	-	(722,552)
Infrastructure	<u>(3,034,392)</u>	<u>(277,377)</u>	<u>2,003</u>	<u>(3,309,766)</u>
Total accumulated depreciation	<u>(11,666,649)</u>	<u>(496,920)</u>	<u>9,449</u>	<u>(12,154,120)</u>
Total capital assets, being depreciated, net	<u>13,008,038</u>	<u>(432,702)</u>	<u>(1,009)</u>	<u>12,574,327</u>
Business-type activities capital assets, net	<u>\$ 13,249,978</u>	<u>\$ (174,748)</u>	<u>\$ (1,009)</u>	<u>\$ 13,074,221</u>

During 2006, the City's governmental activities contributed a vehicle to the business-type activities. The cost and accumulated depreciation of the contributed vehicle was \$24,983 resulting in no book value. The contribution is reported as a disposal in the governmental activities capital assets and as an addition in the business-type activities capital assets.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 58,281
Security of persons and property	301,565
Transportation	592,401
Community environment	3,522
Leisure time activity	<u>87,475</u>

Total depreciation expense - governmental activities	<u>\$ 1,043,244</u>
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**Business-type activities:**

Sewer	<u>\$ 471,937</u>
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**NOTE 11 - COMPENSATED ABSENCES**

The City accrues unpaid vacation as it is earned and certain portion of sick leave pay becomes vested and payment becomes probable.

Sick leave accumulates for non-union and AFSCME employees at the rate of 4.6 hours of sick leave for each eighty hours of work completed. Employees who have sick leave accumulated receive payment upon resignation with fifteen minimum years of continuous service at a rate of 2/3 of a maximum of 180 days (120 days). Sick leave accumulates for fire employees at the rate of 1 1/4 days of sick leave for each completed month. Upon retirement the fire employees receive 1/3 total hours accumulated not to exceed 1/3 of 2,880 hours.

Sick leave accumulates for police employees at 10 hours for each completed month. Upon retirement or resignation with fifteen minimum years of service receive two-thirds of sick leave accumulated not to exceed 120 days.

Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for sick leave for only the employees who are age 50 or older, or have thirty years with local government employment.



**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 11 - COMPENSATED ABSENCES - (Continued)**

A liability for accrued vacation for \$248,154 has been recognized. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<b>Non-Union &amp; Dispatchers Credit</b>	<b>Employee Service</b>	<b>AFSCME Credit</b>
1 to 4 years	10 days	1 to 4 years	10 days
After 5 years	11 days	After 5 years	11 days
After 6 years	12 days	After 6 years	12 days
After 7 years	13 days	After 7 years	13 days
After 8 years	14 days	After 8 years	14 days
After 9-12 years	15 days	After 9-10 years	15 days
After 13 years	16 days	After 11-13 years	16 days
After 14 years	17 days	After 14 years	17 days
After 15 years	18 days	After 15 years	18 days
After 16 years	19 days	After 16-19 years	20 days
<b>Non-Union</b>			
After 17-19 years	20 days	After 20 years	21 days
After 20 years	21 days		
<b>Dispatchers</b>			
After 17-20 years	20 days		
After 21 years	21 days		
<u>Employee Service</u>	<b>Fire Credit</b>	<b>Employee Service</b>	<b>Police Credit</b>
1 to 6 years	5 days	1 to 4 years	10 days
After 7-14 years	8 days	After 5 years	11 days
After 15-20 years	10 days	After 6 years	12 days
After 21 years	11 days	After 7 years	13 days
		After 8 years	14 days
		After 9-12 years	15 days
		After 13 years	16 days
		After 14 years	17 days
		After 15 years	18 days
		After 16 years	19 days
		After 17-20 years	20 days
		Over 21 years	21 days

In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation. Vacation leave to an employee's credit which is in excess of the accrual for the last two years of employment shall be considered excess vacation. Employees shall forfeit their right to take or to be paid for excess vacation and such excess vacation shall be eliminated from the employee's vacation leave balance on each anniversary of employment.

Upon retirement or death of an employee, the employee or his estate shall be entitled to compensation at his current rate of pay for all lawfully accrued and unused vacation leave to his credit at the time of retirement or death.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 12 - LONG-TERM OBLIGATIONS**

A. Long-term obligations of the governmental activities have been restated to include a capital lease which was not previously recorded. The restatement increases governmental activities long-term obligations at December 31, 2005 by \$49,461. See Note 3.B. for detail. The following schedule presents current-year long-term obligation activity:

	Restated Balance 12/31/05	Additions	Retirements	Balance 12/31/06	Amounts Due in One Year
<b><u>Governmental Activities:</u></b>					
<b><u>Special Assessment Anticipation Notes:</u></b>					
Sanitary Sewer Improvement 3.95% Series 2005	\$ 500,000	\$ -	\$ (500,000)	\$ -	\$ -
Sanitary Sewer Improvement 4.05% Series 2006-1	-	400,000	-	400,000	400,000
<b><u>Special Assessment Bonds Payable with Government Commitment:</u></b>					
Miami Street Storm Water Drainage Improvement Bonds 6/24/98, 4.04%	505,000	-	(30,000)	475,000	30,000
<b><u>Other Obligations:</u></b>					
Post-Closure Landfill through 2013	870,539	-	(272,220)	598,319	250,000
Capital Lease	49,461	-	(11,322)	38,139	11,991
Compensated Absences	1,032,329	469,508	(397,764)	1,104,073	405,456
Total Governmental Activities	<u>\$ 2,957,329</u>	<u>\$ 869,508</u>	<u>\$ (1,211,306)</u>	<u>\$ 2,615,531</u>	<u>\$ 1,097,447</u>
<b><u>Business-Type Activities:</u></b>					
<b><u>Bond Anticipation Notes:</u></b>					
Sanitary Improvement Note 2.00% Series 2005	\$ 2,000,000	\$ -	\$ (2,000,000)	\$ -	\$ -
Sanitary Improvement Note 4.25% Series 2006-2	-	2,000,000	-	2,000,000	2,000,000
Sanitary Improvement Note 4.25% Series 2006-3	-	4,000,000	-	4,000,000	4,000,000
<b><u>General Obligation Bonds:</u></b>					
Sewer Imp. Bonds, 4.748%	840,000	-	(195,000)	645,000	205,000
Sanitary Sewer Refunding Bonds - Series 1998, 3.25% - 4.25%	1,780,000	-	(270,000)	1,510,000	280,000
<b><u>Other Obligations:</u></b>					
Compensated Absences	199,825	103,247	(78,718)	224,354	83,423
Total Business-Type Activities	<u>\$ 4,819,825</u>	<u>\$ 6,103,247</u>	<u>\$ (2,543,718)</u>	<u>\$ 8,379,354</u>	<u>\$ 6,568,423</u>

Outstanding general obligation bonds consist of a wastewater treatment plant improvement issue. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

The special assessment bonds are for a streetscape project and Miami Street storm water drainage improvements. The special assessment bond issues are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 12 - LONG TERM OBLIGATIONS - (Continued)**

In January, 2001, based upon EPA Findings and Orders, the landfill which was closed in 1972, would need monitoring until 2013. In 2001, an estimate was made by engineers of the total monitoring costs and Post Landfill debt was established. Each year actual costs made from the capital improvement fund are reclassified against the debt established until it is complete or until a new estimate is made or if the EPA determines, based on their testing, that the City is no longer required to monitor the landfill.

The special assessment anticipation notes were issued in anticipation of the issuance of bonds to pay costs of improving and extending the municipal sewerage system by constructing sanitary sewers. The Series 2006-1 note bears an interest rate of 4.05% and is due on June 7, 2007.

The bond anticipation notes were issued in anticipation of the issuance of bonds for the purpose of improving the City's sanitary sewer system by constructing and reconstructing sanitary sewers and sanitary sewer service connections. The Series 2006-2 and Series 2006-3 notes each bear an interest rate of 4.25% and are due on March 1, 2007.

All of the business-type activity debt is general obligation debt but it is anticipated that user charges will pay-off all the outstanding bonds.

Compensated absences will be paid from the fund from which the employee is paid, which for the City, is primarily the general, Street Construction, Maintenance & Repair, Park & Recreation, Municipal Court Probation Services, Sidewalk Improvement and Sewer funds.

**B.** The annual requirements to amortize all bonds outstanding as of December 31, 2006 are as follows:

Year Ending December 31,	<u>Business-Type Activities</u>		<u>Governmental Activities</u>		<u>Total</u>
	<u>General</u>	<u>General</u>	<u>Special</u>	<u>Special</u>	
	<u>Obligation</u>	<u>Obligation</u>	<u>Assessment</u>	<u>Assessment</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$ 485,000	\$ 94,337	\$ 30,000	\$ 25,063	\$ 634,400
2008	505,000	73,056	30,000	23,653	631,709
2009	525,000	50,630	35,000	22,212	632,842
2010	315,000	27,042	35,000	20,497	397,539
2011	325,000	13,812	35,000	18,747	392,559
2012-2016	-	-	210,000	64,560	274,560
2017-2018	-	-	100,000	8,400	108,400
Totals	<u>\$ 2,155,000</u>	<u>\$ 258,877</u>	<u>\$ 475,000</u>	<u>\$ 183,132</u>	<u>\$ 3,072,009</u>

**C.** The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2006, the City's total voted debt margin was \$30,505,883, and the unvoted debt margin was \$15,943,093; both amounts include available funds of \$69,069.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the City entered into a capitalized lease agreement with First Capital Equipment Leasing Corp. for the acquisition of thirteen mobile computers for the police department.

The terms of the lease agreement provides an option to purchase the equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets acquired by lease have been capitalized in the governmental activities statement of net assets for \$63,093, which is the amount equal to the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$18,928, leaving a current book value of \$44,165. At inception, capital lease transactions are accounted for as a capital outlay expenditure or capital asset addition and other financing source or non-operating revenue in the appropriate fund, with a corresponding liability is recorded in the governmental activities statement of net assets.

Principal and interest payments in 2006 totaled \$11,322 and \$4,590, respectively, in the General Capital Improvement nonmajor capital projects fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2006:

Year Ending December 31,	Governmental Activities
2007	\$ 14,243
2008	14,243
2009	14,243
Total future minimum lease payments	42,729
Less: amount representing interest	(4,590)
Present value of future minimum lease payments	\$ 38,139

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$420,489, \$406,676, and \$359,735, respectively; 100% has been contributed for 2005 and 2004. 88.93% has been contributed for 2006 with the remainder of \$46,542 being reported as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2006.

**B. Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to the fund for police and firefighters were \$773,362, \$778,867, \$703,865, respectively. The full amount has been contributed for 2005 and 2004. 73.47% has been contributed for 2006 with the remainder of \$205,200 being reported as a liability.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$138,117. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

**CITY OF TIFFIN, OHIO**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers".

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$120,629 for police and \$151,652 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

**CITY OF TIFFIN, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statement for the general fund.

	<u>General</u>
Budget basis	\$ (45,785)
Net adjustment for revenue accruals	(44,821)
Net adjustment for expenditure accruals	2,509
Adjustment for encumbrances	<u>315,990</u>
GAAP basis	<u>\$ 227,893</u>

**NOTE 17 - CONTINGENT LIABILITIES**

**A. Federal and State Grants**

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by grantor agencies or their representative. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**B. Litigation**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the law director the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT**

On February 28, 2007, the City issued \$6,500,000 Sewer Bonds – Series 2007 for the Phase II CS Separation Project. The bonds bear interest rates ranging from 3.60% to 4.50%. The first principal payment will be made on December 1, 2007 from the Sewer enterprise fund. The bonds mature on December 1, 2026.

In June 2007, the City retired the special assessment anticipation notes in the amount of \$400,000 and issued new ones in the amount of \$300,000.





**Julian & Grube, Inc.**  
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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

Members of Council and Mayor  
City of Tiffin  
51 East Market Street  
Tiffin, Ohio 44883

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tiffin, as of and for the year ended December 31, 2006, which collectively comprise the City of Tiffin's basic financial statements and have issued our report thereon dated August 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Tiffin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tiffin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tiffin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Tiffin's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Tiffin's financial statements that is more than inconsequential will not be prevented or detected by the City of Tiffin's internal control. We consider 2006-COT-003 the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Tiffin's internal control.

Members of Council and Mayor  
City of Tiffin

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tiffin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 2006-COT-001 and 2006-COT-002.

We noted certain matters that we reported to the management of the City of Tiffin in a separate letter dated August 13, 2007.

The City of Tiffin's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Tiffin's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management and City Council of Tiffin and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.  
August 13, 2007

**CITY OF TIFFIN  
SENECA COUNTY, OHIO  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS AND RESPONSES**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
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Finding Number	2006-COT-001
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Ohio Revised Code Section 5705.39 requires that total appropriations from each fund should not exceed total estimated resources.

In noncompliance with Ohio Revised Code Section 5705.39, the City had appropriations exceeding estimated resources at year end for the following fund:

<u>Fund</u>	<u>Excess</u>
Street Maintenance Fund	\$ 29,059

With appropriations exceeding estimated resources, the City is appropriating monies that are not in the treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause expenditures to increase and cause a deficit fund balance.

We recommend that the Director of Finance comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

*Client Response:* The Director of Finance is attempting to monitor its budget more closely and to submit additional amendments for estimated resources or reduce its appropriations as necessary.

Finding Number	2006-COT-002
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit for the fiscal year ended December 31, 2006 that 32.76% of expenditures tested were not certified in a timely manner.

Without timely certification, the City increases the risk that purchases may be made for an improper public purpose, expend more funds than are appropriated, or that are available in the treasury or in the process of collection. Thus a negative fund balance may result. It may also result in unnecessary purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. A policy and procedure statement adopted by the Council and distributed at least annually may be beneficial. The City should consider using "Then" and "Now" certificates where applicable.

**CITY OF TIFFIN  
SENECA COUNTY, OHIO  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS AND RESPONSES**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>
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Finding Number	2006-COT-002 - (Continued)
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*Client Response:* The Director of Finance will attempt to certify its disbursements in a more timely manner based on approved permanent appropriations.

Finding Number	2006-COT-003
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In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accounts, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This new standard requires the auditor to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

The City did not maintain sufficient controls in place to report financial data for capital assets.

The compilation and presentation of financial statements and the related footnotes is the responsibility of management. This responsibility remains intact if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to drafting financial statements and footnotes that enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditors to perform this control procedure as auditors must remain independent.

We recommend the City implement control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatement in the financial statements and footnotes. We further recommend that the Finance Director review in detail with the consultant (if applicable) the financial report and notes to those financial statements.

*Client Response:* The 2006 report was the first under the new Finance Director’s management. The City has implemented internal control procedures to address this significant deficiency regarding capital assets.



Mary Taylor, CPA  
Auditor of State

**CITY OF TIFFIN**  
**SENECA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**SEPTEMBER 27, 2007**