



Dave Yost • Auditor of State

VILLAGE OF OTTAWA HILLS
LUCAS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Ottawa Hills
Lucas County
2125 Richards Road
Ottawa Hills, Ohio 43606

To the Honorable Mayor and Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa Hills, Lucas County, Ohio (the Village), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2C describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa Hills, Lucas County, Ohio, as of December 31, 2012, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2C.

Accounting Basis

We draw attention to Note 2C of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2012, the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Village's financial statements that collectively comprise its basic financial statements.

Management's Discussion and Analysis includes tables of net position, changes in net position, and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting

or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

August 1, 2014

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Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

This discussion and analysis of the Village of Ottawa Hills's financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2012, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2012 are as follows:

- In 2012 the Village retired \$4,200,000 of five-year General Obligation Notes. The Village's only remaining debt is a series of 0% interest ten-year loans from the Ohio Public Works Commission related to road and sewer projects. Outstanding debt as of December 31, 2012 is \$227,350.
- As a result of the debt retirement, the net position of governmental activities decreased by \$3,814,109 over the prior year. The decrease in net position was smaller than expected due to higher income tax collections and expenditures coming in below budget.
- The Village's general receipts are primarily income, estate and property taxes. These receipts represent 61.7, 9.8 and 9.3 percent respectively of the total cash received for governmental activities during the year. Income tax receipts increased by \$347,650 or 9.8 percent versus 2011. Property taxes increased by \$8,725 or 1.5% versus 2011. 2012 estate tax revenues increased by \$378,222 or 157.5% versus 2011. The Ohio estate tax was repealed as of January 1, 2013.
- The Village's efforts to control operating costs combined with stronger income tax receipts allowed the Village to achieve an operating surplus for 2012.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

For 2012 the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Village's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

Report Components

The statement of net position and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determines when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Village as a Whole

The statement of net position and the statement of activities reflect how the Village did financially during 2012, within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the Village at year end. The Village has no business-type activities. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other non-financial factors as well, such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net position and the statement of activities, all of the Village transactions are categorized as Governmental activities:

Governmental activities - Basic government services, including police, fire, streets and parks are reported here. Income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are all governmental.

Governmental Funds - All of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Capital Projects Fund, Capital Grants Fund, Capital Financed Fund, and the Capital Reserve Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Village as a Whole

Table 1 provides a summary of the Village's net position for 2012 compared to 2011 on a cash basis.

(Table 1)
Net Position

	Governmental Activities	
	2012	2011
Assets		
Cash and Cash Equivalents	\$8,865,511	\$12,679,620
Net Assets		
Restricted for:		
Capital Projects	2,250,104	4,023,255
Other Purposes	2,007,107	1,924,312
Unrestricted	4,608,300	6,732,053
Total Net Position	\$8,865,511	\$12,679,620

As mentioned previously, the net position of governmental activities decreased \$3,814,109 due to the payoff of \$4,200,000 in five-year general obligation notes.

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 reflects the changes in net position for the year ended December 31, 2012 compared to 2011.

(Table 2)
Changes in Net Position

	Governmental Activities		
	2012	2011	Change
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$222,338	\$244,744	(\$22,406)
Operating Grants and Contributions	278,355	279,804	(1,449)
Capital Grants and Contributions	267,557	42,042	225,515
Total Program Receipts	<u>768,250</u>	<u>566,590</u>	<u>201,660</u>
General Receipts:			
Property and Other Local Taxes	583,086	574,361	8,725
Income Taxes	3,885,567	3,537,917	347,650
Other Taxes	46,176	44,966	1,210
Grants and Entitlements Not Restricted to Specific Programs	825,285	495,528	329,757
Interest	62,791	177,734	(114,943)
Miscellaneous	129,168	46,962	82,206
Total General Receipts	<u>5,532,073</u>	<u>4,877,468</u>	<u>654,605</u>
Total Receipts	<u>6,300,323</u>	<u>5,444,058</u>	<u>856,265</u>
Disbursements:			
General Government	\$804,792	\$828,245	(23,453)
Security of Persons and Property:	2,244,826	2,308,787	(63,961)
Public Health Services	36,929	36,479	450
Leisure Time Activities	421,289	446,155	(24,866)
Basic Utilities	484,591	492,305	(7,714)
Transportation	492,241	487,517	4,724
Capital Outlay	1,162,208	216,076	946,132
Principal Retirement	4,299,556	269,960	4,029,596
Interest and Fiscal Charges	168,000	176,000	(8,000)
Total Disbursements	<u>10,114,432</u>	<u>5,261,524</u>	<u>4,852,908</u>
Increase (Decrease) in Net Position	(3,814,109)	182,534	(3,996,643)
Net Position Beginning of Year	<u>12,679,620</u>	<u>12,497,086</u>	<u>182,534</u>
Net Position End of Year	<u>\$8,865,511</u>	<u>\$12,679,620</u>	<u>(\$3,814,109)</u>

Program receipts represent only 12.2 percent of total receipts in 2012 and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, recreation program fees and grants.

General receipts represent 87.8 percent of the Village's total receipts for 2012, and, of this amount, 80.8 percent are local income and property taxes. Grants and entitlements and interest make up the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of Council, and the manager, finance, and income tax departments, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs for full-time police, contracted fire services, and other related security expenses. Public Health Services is the cost for the county health department; Leisure Time Activities are the costs of maintaining the parks and the recreation program; Basic Utility Services include refuse, recycling and sewer expenses; and Transportation is the operating cost of maintaining the roads. Capital outlay includes expenditures for road and storm sewer reconstruction projects. Debt Service reflects principal and interest expense on 5-year general obligation notes, which were retired in 2012, and principal payments on no-interest loans from the Ohio Public Works Commission.

Governmental Activities

On the Statement of Activities, the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities in 2012 are for principal retirement, security of persons and property, capital outlay and general government, which account for 42.5, 22.2, 11.5 and 8.0 percent of all governmental disbursements, respectively. The next three columns of the Statement, entitled Program Cash Receipts, identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which is paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Governmental Activities			
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2012	2012	2011	2011
General Government	\$804,792	\$785,132	\$828,245	\$809,759
Security of Persons and Property	2,244,826	2,135,470	2,308,787	2,172,009
Public Health Services	36,929	36,929	36,479	36,479
Leisure Time Activities	421,289	263,131	446,155	287,918
Basic Utilities	484,591	456,031	492,305	465,655
Transportation	492,241	307,282	487,517	303,120
Capital Outlay	1,162,208	894,651	216,076	174,034
Principal Retirement	4,299,556	4,299,556	269,960	269,960
Interest and Fiscal Charges	168,000	168,000	176,000	176,000
Total Expenses	\$10,114,432	\$9,346,182	\$5,261,524	\$4,694,934

The dependence upon property and income tax receipts is apparent as over 86.8 percent of governmental activities, excluding principal retirement, are supported through general receipts in 2012.

The Village's Funds

Total governmental funds had receipts of \$6,300,323 and disbursements of \$5,814,876 before principal retirement of \$4,299,556. The General Fund balance decreased \$2,141,587. Before transfers the

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

General Fund had an excess of receipts over disbursements of \$1,672,769. \$3,814,356 was transferred to support other funds, primarily the Capital Financed Fund to retire the debt. The Capital Projects Fund increased by \$121,033 due to capital expenditures being lower than budgeted. The Capital Grants fund balance decreased by \$315,240 as a result of capital expenditures. The Capital Financed Fund balance was used along with transfers to retire the debt, leaving a minimal balance. The Capital Reserve Fund balance was reduced by \$1,469,000 in transfers to the Capital Financed Fund for debt retirement.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2012, the Village amended its General Fund budget to reflect changing circumstances. Actual receipts exceeded final budgeted receipts by \$900,082 due to higher than expected income tax receipts.

Final disbursements in the General Fund were budgeted at \$5,586,822 while actual disbursements, including encumbrances at year end, were \$5,343,452, or 4.4 percent below budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently reflect the value of its capital assets and infrastructure in the financial statements. The Village uses other methods, including inventories of equipment, roads and street trees to insure responsible management of municipal assets.

Debt

At December 31, 2012, the Village's outstanding debt totaled \$227,350 in ten-year, interest-free loans from the Ohio Public Works Commission, which were used for a variety of Village road and storm sewer projects. During 2012 \$4,200,000 of five-year general obligation notes were retired. For further information regarding the Village's debt, refer to Note 10 to the basic financial statements.

Current Issues

The challenge for all local governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The Village continues to be in a strong financial position and the local economy and real estate market are showing signs of improvement. Ottawa Hills is almost completely residential and relies heavily on local taxes. A new challenge is the repeal of the Ohio estate tax as of January 1, 2013, which has historically been a source for infrastructure improvements. The Village Council is committed to a balanced operating budget and continues to review forecasting and manage the cost of providing services.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Karen Urbanik, Finance Director, or John Lewis, Clerk-Treasurer, Village of Ottawa Hills, 2125 Richards Road, Ottawa Hills, Ohio 43606.

Village of Ottawa Hills, Ohio
Lucas County
Statement of Net Position - Cash Basis
December 31, 2012

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,865,511
 Net Position	
Restricted for:	
Capital Projects	\$2,250,104
Other Purposes	2,007,107
Unrestricted	4,608,300
 <i>Total Net Position</i>	 <i>\$8,865,511</i>

See accompanying notes to the basic financial statements

Village of Ottawa Hills, Ohio
Lucas County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2012

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Current:					
Security of Persons and Property	\$2,244,826	\$24,747	\$84,609		(\$2,135,470)
Public Health Services	36,929				(36,929)
Leisure Time Activities	421,289	149,371	8,787		(263,131)
Basic Utility Services	484,591	28,560			(456,031)
Transportation	492,241		184,959		(307,282)
General Government	804,792	19,660			(785,132)
Capital Outlay	1,162,208			\$267,557	(894,651)
Debt Service:					
Principal Retirement	4,299,556				(4,299,556)
Interest and Fiscal Charges	168,000				(168,000)
Total	\$10,114,432	\$222,338	\$278,355	\$267,557	(\$9,346,182)

General Receipts:		
Property Taxes Levied for:		
General Purposes		497,660
Police Pension		42,713
Fire Pension		42,713
Income Taxes		3,885,567
Other Local Taxes		46,176
Grants and Entitlements not Restricted to Specific Programs		825,285
Earnings on Investments		62,791
Miscellaneous		129,168
Total General Receipts		5,532,073
Change in Net Position		(3,814,109)
<i>Net Position Beginning of Year</i>		12,679,620
<i>Net Position End of Year</i>		\$8,865,511

See accompanying notes to the basic financial statements

Village of Ottawa Hills, Ohio
Lucas County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
 December 31, 2012

	General	Capital Projects Fund	Capital Grants Fund	Capital Financed Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$4,684,215	\$406,153	\$843,367	\$584	\$1,000,000	\$1,931,192	\$8,865,511
Fund Balances							
Nonspendable	802						802
Restricted			843,367			1,623,192	2,466,559
Committed	1,116,526	76,332				308,000	1,500,858
Assigned	221,414	329,821		584	1,000,000		1,551,819
Unassigned	3,345,473						3,345,473
<i>Total Fund Balances</i>	<u>\$4,684,215</u>	<u>\$406,153</u>	<u>\$843,367</u>	<u>\$584</u>	<u>\$1,000,000</u>	<u>\$1,931,192</u>	<u>\$8,865,511</u>

See accompanying notes to the basic financial statements

Village of Ottawa Hills, Ohio
Lucas County
Statement of Receipts, Disbursements and Changes Fund Balances - Cash Basis
Governmental Funds
For the Year Ended December 31, 2012

	General	Capital Projects Fund	Capital Grants Fund	Capital Financed Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
Receipts							
Municipal Income Taxes	\$3,885,567						\$3,885,567
Property and Other Local Taxes	497,660					\$85,426	583,086
Intergovernmental	837,011		\$217,557			199,417	1,253,985
Special Assessments						63,851	63,851
Charges for Services	143,052						143,052
Fines, Licenses and Permits	65,836					3,278	69,114
Earnings on Investments	60,279					2,512	62,791
Miscellaneous	188,877	\$50,000					238,877
<i>Total Receipts</i>	<u>5,678,282</u>	<u>50,000</u>	<u>217,557</u>			<u>354,484</u>	<u>6,300,323</u>
Disbursements							
Current:							
Security of Persons and Property	1,961,979					282,846	2,244,825
Public Health Services	36,929						36,929
Leisure Time Activities	401,404					19,885	421,289
Basic Utility Services	484,591						484,591
Transportation	315,818					176,424	492,242
General Government	804,792						804,792
Capital Outlay		728,967	433,241				1,162,208
Debt Service:							
Principal Retirement			99,556	\$4,200,000			4,299,556
Interest and Fiscal Charges				168,000			168,000
<i>Total Disbursements</i>	<u>4,005,513</u>	<u>728,967</u>	<u>532,797</u>	<u>4,368,000</u>		<u>479,155</u>	<u>10,114,432</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,672,769</u>	<u>(678,967)</u>	<u>(315,240)</u>	<u>(4,368,000)</u>		<u>(124,671)</u>	<u>(3,814,109)</u>
Other Financing Sources (Uses)							
Transfers In		800,000		4,258,056		225,300	5,283,356
Transfers Out	(3,814,356)				(\$1,469,000)		(5,283,356)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,814,356)</u>	<u>800,000</u>		<u>4,258,056</u>	<u>(1,469,000)</u>	<u>225,300</u>	
<i>Net Change in Fund Balances</i>	<u>(2,141,587)</u>	<u>121,033</u>	<u>(315,240)</u>	<u>(109,944)</u>	<u>(1,469,000)</u>	<u>100,629</u>	<u>(3,814,109)</u>
<i>Fund Balances Beginning of Year</i>	<u>6,825,802</u>	<u>285,120</u>	<u>1,158,607</u>	<u>110,528</u>	<u>2,469,000</u>	<u>1,830,563</u>	<u>12,679,620</u>
<i>Fund Balances End of Year</i>	<u>\$4,684,215</u>	<u>\$406,153</u>	<u>\$843,367</u>	<u>\$584</u>	<u>\$1,000,000</u>	<u>\$1,931,192</u>	<u>\$8,865,511</u>

See accompanying notes to the basic financial statements

Village of Ottawa Hills, Ohio
Lucas County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	\$3,193,000	\$3,032,800	\$3,885,567	\$852,767
Property and Other Taxes	564,000	490,000	497,660	7,660
Intergovernmental	441,000	816,500	837,011	20,511
Charges for Services	140,000	140,000	143,052	3,052
Fines, Licenses and Permits	64,000	64,000	65,836	1,836
Earnings on Investments	99,000	54,000	60,279	6,279
Miscellaneous	127,200	180,900	188,877	7,977
<i>Total Receipts</i>	<u>4,628,200</u>	<u>4,778,200</u>	<u>5,678,282</u>	<u>900,082</u>
Disbursements				
Current:				
Security of Persons and Property	3,172,544	3,172,544	3,124,394	48,150
Public Health Services	38,500	38,500	36,929	1,571
Leisure Time Activities	416,306	441,306	417,528	23,778
Basic Utility Services	560,464	560,464	510,475	49,989
Transportation	391,355	391,355	339,336	52,019
General Government	972,653	982,653	914,790	67,863
<i>Total Disbursements</i>	<u>5,551,822</u>	<u>5,586,822</u>	<u>5,343,452</u>	<u>243,370</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(923,622)</u>	<u>(808,622)</u>	<u>334,830</u>	<u>1,143,452</u>
Other Financing Uses				
Transfers Out	(3,316,356)	(3,816,356)	(3,814,356)	2,000
<i>Net Change in Fund Balance</i>	(4,239,978)	(4,624,978)	(3,479,526)	1,145,452
<i>Unencumbered Fund Balance Beginning of Year</i>	5,133,000	5,133,000	5,133,000	
Prior Year Encumbrances Appropriated	1,692,802	1,692,802	1,692,802	
<i>Unencumbered Fund Balance End of Year</i>	<u>\$2,585,824</u>	<u>\$2,200,824</u>	<u>\$3,346,276</u>	<u>\$1,145,452</u>

See accompanying notes to the basic financial statements

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 1 – REPORTING ENTITY

The Village of Ottawa Hills, Lucas County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

The reporting entity is comprised of the primary government. There are no component units or other organizations that are required to be included in the financial statements.

Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, maintenance of Village roads and bridges, park operations, and police and fire services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the Village as a whole. These statements include the financial activities of the Village as a whole. The Village does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

The statement of net position presents the cash balance of the governmental activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The Village only has governmental funds.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund, Capital Projects Fund, Capital Grants Fund, Capital Financed Fund and the Capital Reserve 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 balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. The Capital Projects Fund is used to account for capital expenditures that don't relate to grants or debt issuance. It is funded by transfers from the General Fund. The Capital Grants Fund accounts for construction projects involving grants from the State of Ohio. The grant funds are restricted to their particular project. Additional monies are transferred to this fund as needed from the General Fund.

The Capital Financed Fund was established to account for monies from the issuance of 5-year notes to be used for street lighting and other capital projects. The Capital Reserve Fund is set up with money that is set aside to show the intent of the Village to fund future capital projects over the next 5 years. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources, and the appropriations ordinance, both of which are prepared on the budgetary basis of accounting. Lucas County no longer requires submission of a tax budget to the County Budget Commission. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department, and category level, i.e. personal services, operating and maintenance, and capital categories, for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

During 2012, the Village invested in U.S. Agency Instruments, money market funds, certificates of deposit through the CDARS program and STAR Ohio. The U.S. Agency Instruments and certificates of deposit are reported at cost. The Village's money market fund investments are recorded at the amount reported by each institution at December 31, 2012.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2012.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2012 was \$60,279 which includes \$32,669 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

VILLAGE OF OTTAWA HILLS
LUCAS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

K. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include \$843,367 for Capital Grants, \$761,115 for Street Construction, \$67,592 for State Highway Improvement, \$28,381 for Law Enforcement, \$36,589 for Drug Enforcement, \$106,005 for Street Lights, \$191,248 for Shade Trees, \$121,204 for Police Pension, and \$311,058 for Firemen's Pension.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Village Council. Those committed amounts cannot be used for any other purpose unless Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Interfund Transactions

Interfund transfers are reported as other financing sources/uses in governmental funds.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

For 2012, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Village's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 4 – DEPOSITS AND INVESTMENTS

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS - (CONTINUED)

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 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.

Interim deposits are deposits of interim monies. Interim monies 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.

The Village has adopted an investment policy which is more restrictive than provided for under the Uniform Depository Act, Ohio Revised Code Section 135. This policy has been filed with the State Auditor and annual training is completed as required. Interim monies held by the Village can be deposited or invested in the following securities according to this policy:

It is the intention of the Village of Ottawa Hills to invest Village funds in a manner that:

1. Preserves principal
2. Insures security of funds
3. Maximizes return

To accomplish these goals the Council of the Village of Ottawa Hills adopts the following policies that comply with the Uniform Depository Act, Ohio Revised Code Section 135.

Authorized Investments:	Collateralized Certificates of Deposit Insured Certificates of Deposit Repurchase Agreements – agreements with banks to purchase a security from the bank and resell it to the bank to produce a stated interest rate (securities must be legal investments under the O.R.C. Section 135) U.S Treasuries U.S. Agencies (excluding derivatives) STAR Ohio
Terms of Investments:	Maximum Five (5) Years
Diversification:	May not exceed 50% of invested fund in STAR Ohio May not exceed 40% of invested funds in any one bank

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 Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS - (CONTINUED)

Deposits

At year end, the Village had \$200 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$721 of the Village’s bank balance of \$898,124 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Village’s name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

As of December 31, 2012, the Village had the following investments:

	<u>Amount</u>	<u>Maturity</u>
Federal National Mortgage Assoc. securities	\$619,850	10/14/2014
	<u>500,000</u>	12/27/2017
	1,119,850	
Federal Home Loan Mortgage securities (FHLMC)	376,904	6/20/2016
	<u>699,210</u>	9/15/2016
	1,076,114	
	301,271	2/21/2013
	503,055	8/22/2013
	509,472	10/24/2013
	<u>302,493</u>	9/25/2014
Certificates of Deposit (CDARS Program)	1,616,291	
Fifth Third Money Market	402,307	47 days
STAR Ohio	<u>3,039,223</u>	55 days
	<u><u>\$7,253,785</u></u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Village’s investment policy addresses interest rate risk by requiring that the Village’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS - (CONTINUED)

STAR Ohio carries a rating of AAA by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency Securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

NOTE 5 – INCOME TAXES

The Village levies a 1.5 percent income tax whose proceeds are placed into the General Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. When the taxable income of a resident is subject to income tax in another municipality on the same income taxable under this ordinance, the resident is allowed a credit of the amount of income tax paid on such taxable income to such other municipality, equal to fifty percent (50%) of the amount obtained by multiplying the lower of the tax rate of such other municipality or of this municipality (1.5%) by the taxable income earned in or attributable to the municipality of employment or business activity. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

NOTE 6 – PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2012 represent the collection of 2011 taxes. Real property taxes received in 2012 were levied after October 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due January 31, with the remainder payable by July 31.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2012 with real property taxes.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 6 – PROPERTY TAXES – (CONTINUED)

The full tax rate for all Village operations for the year ended December 31, 2012, was \$4.10 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2012 property tax receipts were based are as follows:

Real Property	
Residential & Agriculture	\$159,385,750
Commercial/Industrial/Mineral	3,510,720
Public Utility Property	
Personal	1,034,670
Tangible Personal Property	
Total Assessed Value	<u>\$163,931,140</u>

NOTE 7 – RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Wrongful acts;
- Law Enforcement;
- Vehicles;
- Errors and omissions
- Inland Marine;
- Electronic Data Processing; and
- Boiler and Machinery.

The Village also provides health insurance to full-time employees through a private carrier. A cafeteria (Section 125) plan is available to eligible employees. Dental insurance is made available on a voluntary basis through a private carrier.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The Village 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 percent 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.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 8 – DEFINED BENEFIT PENSION PLANS - (CONTINUED)

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.

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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2012, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 10 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2012 was 14 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011 and 2010 were \$191,338, \$186,397, and \$171,819, respectively. 81.5 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

B. Ohio Police and Fire Pension Fund

The Village 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 information 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 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2012, 2011 and 2010 were \$131,060, \$138,429, and \$279,235. 70.9 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

C. Social Security Administration

Beginning in 2012 the Village no longer has employees who contribute to Social Security. In prior years part-time firefighters contributed to Social Security because they were not allowed to participate in OPERS or OP&F. This plan provides retirement benefits, including survivor and disability benefits to participants. For 2011 these employees contributed 4.2% of their gross salaries, and for 2010 these employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participant's gross salaries. The Village's required contributions to Social Security for the years ended December 31, 2012, 2011, and 2010 were \$0, \$327, and \$5,010. The full amount has been contributed for 2011 and 2010.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 9 - POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for postemployment healthcare coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide healthcare benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The postemployment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund postemployment healthcare through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postemployment healthcare.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14 percent of covered payroll (18.10 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment healthcare benefits. The amount of the employer contributions which was allocated to fund postemployment healthcare for members in the Traditional Plan was 4.0 percent of covered payroll during calendar year 2012. The portion of the employer contributions which was allocated to fund postemployment healthcare for members in the Combined Plan was 6.05 percent of covered payroll during calendar year 2012.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment healthcare plan.

Actual Village contributions for 2012 which were used to fund post employment benefits were \$51,214.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

VILLAGE OF OTTAWA HILLS
LUCAS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 9 - POST EMPLOYMENT BENEFITS – (CONTINUED)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides access to post-retirement health care coverage for eligible persons who receive a monthly service, disability or survivor benefit check. If eligible, the plan subsidizes a spouse, survivor, child up to age 28, or incapacitated child for medical and prescription drugs.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. 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 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.75 percent of covered payroll was applied to the post employment health care program during 2011. In addition, since July 1, 1992, most retirees and survivors 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 Village's actual contributions for 2012 that were used to fund post employment health care benefits were \$43,980 for police. The OP&F's total health care expense for the year ended December 31, 2011, (the latest information available) was \$113,812,105, which was net of member contributions of \$62,528,377. The number of OP&F participants eligible to receive health care benefits as of January 1, 2012, was 15,572 for police and 11,506 for firefighters

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 10 – DEBT

The Village's long-term debt activity for the year ended December 31, 2012, was as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bond Anticipation Notes – 2007 Original Amount \$5,000,000	4.00%	\$4,200,000		\$4,200,000		
2002 OPWC Loan Original Amount \$123,223	0%	6,161		\$6,161		
2004 OPWC Loan Original Amount \$161,358	0%	40,338		24,203	\$16,135	\$16,135
2005 OPWC Loan Original Amount \$415,014	0%	166,005		62,252	103,753	41,501
2012 OPWC Loan CTB8M Original Amount \$24,388	0%		\$24,388	2,439	21,949	2,439
2012 OPWC Loan CT44N Original Amount \$90,014	0%		90,014	4,501	85,513	9,002
Total		<u>\$4,412,504</u>	<u>\$114,402</u>	<u>\$4,299,556</u>	<u>\$227,350</u>	<u>\$69,077</u>

In 2007, the Village issued \$5,000,000 of General Obligation Bond Anticipation Notes; \$4,000,000 were issued to refund the Village's General Obligation Bond Anticipation Notes, Series 2002 for roadway repair/replacement, and \$1,000,000 were issued for the purpose of constructing, reconstructing and improving various roads within the Village. The bond issue included serial bonds with interest rates of 4%. These serial bonds mature annually from 2008 through 2012. The notes are collateralized by the full faith and credit of the Village.

The Ohio Public Works Commission (OPWC) 2002 loan related to a resurfacing of several roads in a joint project with Lucas County. The Village's portion of the 2002 OPWC loan is \$123,222. The loan has been repaid in semi-annual installments of \$6,161, principal only payments, over 10 years.

The OPWC 2004 loan related to a road repair/replacement project involving several roads in a joint project with the City of Toledo. The total amount of the loan is \$161,358, with \$60,500 of the loan relating to the City of Toledo's portion of the project. The loan will be repaid in semi-annual installments of \$8,068, principal only payments, over 10 years. The City of Toledo will be billed \$3,025 semi-annually for their portion of the loan.

**VILLAGE OF OTTAWA HILLS
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 10 – DEBT (CONTINUED)

The OPWC 2005 loan relates to a repair project of several roads in a joint project with the City of Toledo. The total amount of the loan is \$415,014, with \$195,056 of the loan relating to the City of Toledo's portion of the project. The loan will be repaid in semi-annual installments of \$20,751, principal only payments over 10 years. The City of Toledo will be billed \$9,753 semi-annually for their portion of the loan.

The OPWC 2012 CTB8M loan related to pavement and storm sewer repairs to Bancroft Street. The 2012 CTB8M OPWC loan totals \$24,388. The loan will be repaid in semi-annual installments of \$1,219, principal only payments, over 10 years.

The OPWC 2012 CT44N loan related to a storm sewer rehabilitation project. The 2012 CT44N OPWC loan totals \$90,014. The loan will be repaid in semi-annual installments of \$4,501, principal only payments, over 10 years

The following is a summary of the Village's future annual debt service requirements:

<u>Debt Service Requirements</u> <u>Year ending December 31:</u>	<u>OPWC Loans</u> <u>Principal</u>
2013	\$69,078
2014	52,941
2015	32,191
2016	11,440
2017-2022	61,700
Total	<u><u>\$227,350</u></u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2012, were an overall debt margin of \$17,212,770 and an unvoted debt margin of \$9,016,213.

NOTE 11 – INTERFUND TRANSFERS

During 2012 the following transfers were made:

Transfers from the General Fund to:	
Capital Projects Fund	\$800,000
Capital Financed Fund	2,789,056
Other Governmental Funds	225,300
Total Transfers from the General Fund	<u>3,814,356</u>
Transfers from the Capital Reserve Fund to:	
Capital Financed Fund	1,469,000
Total Transfers	<u><u>\$5,283,356</u></u>

VILLAGE OF OTTAWA HILLS
LUCAS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 11 – INTERFUND TRANSFERS (CONTINUED)

General Fund Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In 2012 the Village paid off \$4,200,000 in notes from the Financed Capital Fund, which required a large transfer into that fund and a transfer which reduced the Capital Reserve Fund

NOTE 12 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

NOTE 13 – CONSTRUCTION AND CONTRACTUAL COMMITMENTS

The Village has encumbered \$1,313,560 for the remaining three years of the current contract with the City of Toledo to provide fire protection and emergency medical services for the Village.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Ottawa Hills
Lucas County
2125 Richards Road
Ottawa Hills, Ohio 43606

To the Honorable Mayor and Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa Hills, Lucas County, Ohio (the Village) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 1, 2014, wherein we noted the Village implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and the Village uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant

agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

August 1, 2014



Dave Yost • Auditor of State

VILLAGE OF OTTAWA HILLS

LUCAS 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
AUGUST 21, 2014