

Village of Ottawa Hills, Lucas County
Management's Discussion and Analysis
For the Year Ended December 31, 2018
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, 2018, 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 2018 are as follows:

- In 2018 the Village completed a significant road improvement project and added an additional project during the year, reconstructing Evergreen Road. Despite the higher infrastructure expenditure and income tax receipts that were lower than the prior year, there was only a minor reduction in net position, which decreased by \$146,510 or 1.8 percent compared with the prior year.
- The Village's general receipts are primarily income and property taxes. These receipts represent 58.6 and 20.8 percent respectively of the total cash received for governmental activities during the year. Income tax receipts decreased by \$606,448 or 15.9 percent versus 2017. Property taxes increased by \$21,173 or 3.8% percent compared with 2017.
- By continuing to control operating expenses, the Village has been able to devote more resources to road reconstruction without significantly reducing our assets.

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.

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.

Basis of Accounting

The basis of accounting is a set of guidelines that determine 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.

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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 2018, 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 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, Road Levy 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.

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The Village as a Whole

Table 1 provides a summary of the Village's net position for 2018 compared to 2017 on a cash basis.

(Table 1)
Net Position

	Governmental Activities	
	2018	2017
Assets		
Cash and Cash Equivalents	\$8,108,896	\$8,255,406
Net Position		
Restricted for:		
Capital Projects	1,663,971	1,315,156
Other Purposes	936,363	917,253
Unrestricted	5,508,562	6,022,997
Total Net Position	\$8,108,896	\$8,255,406

The net position of governmental activities decreased by \$146,510 in 2018.

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Table 2 reflects the changes in net position for the year ended December 31, 2018 compared to 2017.

(Table 2)
Changes in Net Position

	Governmental Activities		
	2018	2017	Change
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$188,801	\$177,810	\$10,991
Operating Grants and Contributions	316,680	321,612	(4,932)
Capital Grants and Contributions	156,642	146,293	10,349
Total Program Receipts	<u>662,123</u>	<u>645,715</u>	<u>16,408</u>
General Receipts:			
Property and Other Local Taxes	1,132,347	1,111,174	21,173
Income Taxes	3,200,760	3,807,208	(606,448)
Other Taxes	47,428	48,992	(1,564)
Grants and Entitlements Not Restricted to Specific Programs	163,220	164,948	(1,728)
Interest	146,365	117,015	29,350
Miscellaneous	110,997	79,859	31,138
Total General Receipts	<u>4,801,117</u>	<u>5,329,196</u>	<u>(528,079)</u>
Total Receipts	<u>5,463,240</u>	<u>5,974,911</u>	<u>(511,671)</u>
Disbursements:			
General Government	\$727,571	\$709,157	18,414
Security of Persons and Property:	2,130,665	2,172,531	(41,866)
Public Health Services	34,724	33,713	1,011
Leisure Time Activities	445,256	465,262	(20,006)
Basic Utilities	445,991	401,006	44,985
Transportation	492,052	533,034	(40,982)
Capital Outlay	1,306,620	859,750	446,870
Principal Retirement	26,871	22,242	4,629
Total Disbursements	<u>5,609,750</u>	<u>5,196,695</u>	<u>413,055</u>
Increase in Net Position	(146,510)	778,216	(924,726)
Net Position Beginning of Year	8,255,406	7,477,190	778,216
Net Position End of Year	<u>\$8,108,896</u>	<u>\$8,255,406</u>	<u>(\$146,510)</u>

General program receipts represent only 12.1 percent of total receipts in 2018 and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, recreation program fees and federal and state grants. Changes in Federal and State income tax legislation shifted some income tax receipts from 2018 to 2017, causing 2017 to be unusually high and income tax in 2018 lower than projected. Because the Village is almost completely residential our income tax collections fluctuate year-to-year.

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General receipts represent 87.9 percent of the Village's total receipts for 2018, and, of this amount, 90.3 percent are local income and property taxes. State and federal 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.

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 reconstruction projects. Debt Service in 2018 reflects principal expense on ten-year no-interest road construction loans from the state.

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 2018 are for security of persons and property, capital outlay and general government, which account for 38.0, 23.3 and 13.0 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 ends up being 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	Net Cost	Total Cost	Net Cost
	Of Services	of Services	Of Services	of Services
	2018	2018	2017	2017
General Government	\$727,571	\$713,731	\$709,157	\$694,932
Security of Persons and Property	2,130,665	2,064,855	2,172,531	2,105,689
Public Health Services	34,724	34,724	33,713	33,713
Leisure Time Activities	445,256	252,817	465,262	270,779
Basic Utilities	445,991	397,747	401,006	364,051
Transportation	492,052	306,904	533,034	346,117
Capital Outlay	1,306,620	1,149,978	859,750	713,457
Principal Retirement	26,871	26,871	22,242	22,242
Total Expenses	\$5,609,750	\$4,947,627	\$5,196,695	\$4,550,980

The dependence upon property and income tax receipts is apparent as 88.2 percent of governmental activities are supported through general receipts in 2018.

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The Village's Funds

Total governmental funds had receipts of \$5,456,098 and disbursements of \$5,609,750. The General Fund balance decreased \$559,661 due to transfers for road construction. The Road Levy Fund balance increased by \$357,742 as a result of the transfers. There was no change to the Capital Reserve Fund balance.

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 2018, the Village amended its General Fund budget to reflect minor changes in circumstances.

Actual receipts exceeded final budgeted receipts by \$181,089.

Final disbursements in the General Fund were budgeted at \$4,380,189 while actual disbursements, including encumbrances at year end, were \$3,905,796, or 10.8 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, 2018, the Village's outstanding debt consisted of \$166,892 in 10-year, interest-free loans from the Ohio Public Works Commission, which were used for a variety of Village road projects.

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. Despite economic challenges, the Village continues to be in a strong financial position. Continued reduction in support from the State of Ohio, including the elimination of the estate tax, has posed challenges for local governments. The Ottawa Hills Council took action to reduce operating costs and to replace some of the funds used for infrastructure through a property tax levy for road construction, which was passed by the community. The Village Council is committed to a balanced operating budget and continues to review forecasting and take steps to reduce 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 Eric Shreve, Clerk/Treasurer, Village of Ottawa Hills, 2125 Richards Road, Ottawa Hills, Ohio 43606.