

**1-8 Compliance Requirement:** Ohio Rev. Code §§ 5705.13, 5705.132, 5705.222 and 5705.29 - Reserve balance accounts and funds.

- Ohio Rev. Code § 5705.13(A) - Reserve balance accounts and funds;
- Ohio Rev. Code § 5705.13(B) – A special revenue fund may be established to accumulate cash for severance payments or salaries when the number of pay periods exceeds the usual and customary number for a year;
- Ohio Rev. Code § 5705.13(C) – Capital projects fund(s) may be established to accumulate resources to acquire, construct, or improve fixed assets;
- Ohio Rev. Code § 5705.222(C) – Reserve balance account for county board of developmental disabilities;
- Ohio Rev. Code § 5705.29 – Contingencies may be established not designated for any particular purpose.

**Summary of Requirements:**

1. Ohio Rev. Code § 5705.13(A) allows a taxing authority of a subdivision to establish, by resolution, a reserve balance account<sup>1</sup> for each of the three following purposes:
  - a) Budget stabilization: may be created in the general fund or in any special fund used for operating purposes. The amount reserved in the account in any fiscal year must not exceed 5% of the fund's revenue for the preceding fiscal year<sup>2</sup>. The reserve balance is excluded from the unencumbered balance when certifying available balances at year-end. The reserve for budget stabilization may be reduced or eliminated at any time by the taxing authority.
  - b) Self-insurance program: may be created in the general fund or in the internal service fund established to account for the operation of the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.
  - c) Retrospective Ratings Plan for Workers' Compensation<sup>3</sup>: may be created in the general fund or in the internal service fund established to account for the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.

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<sup>1</sup> Ohio Rev. Code § 5705.13 refers to these accounts as "reserve" accounts. However, for the GASB Statement No. 54 financial reporting that AOS Bulletin 2011-004 describes, the criterion for using the budget stabilization is not specific enough to meet the *committed* criteria and it does not meet the *restricted* criteria as the budget stabilization is not mandated by State statute. Therefore, a budget stabilization/reserve account should be reported as *unassigned* in the general fund. While statute also gives the authority to have stabilization reserve accounts in other operating funds, the fund balance is reported as *restricted*, *committed*, or *assigned* and the reserve account does not change the fund balance classification. Entity wide statements should report these as part of *unrestricted* net assets. Note: Bulletin 2020-008 simplified the reporting of fund balance classifications in the AOS regulatory cash basis financial statements and footnotes beginning with the December 31, 2020 FYE reporting.

<sup>2</sup> In the case of a reserve balance account of a county or of a township, the budget stabilization amount can be the greater of 5% of the fund's revenues from the preceding fiscal year or one-sixth of the expenditures during the preceding fiscal year from the fund in which the account is established, under Ohio Rev. Code § 5705.13(A)(3). This is our AOS opinion; however, statutory language is less than precise, and may be subject to an alternative interpretation if accompanied with a well-reasoned legal opinion.

<sup>3</sup> Various plans to provide for the payment of claims, assessments, and deductibles are allowed. Plans allowed are: payments under a self-insurance program, individual retrospective ratings plan, group rating plan, group retrospective rating plan, medical only program, deductible plan, or large deductible plan for workers' compensation.

2. Ohio Rev. Code § 5705.13(B) allows a taxing authority to establish a special revenue fund to accumulate cash to pay accumulated leave, or for paying salaries when the number of pay periods exceeds the usual and customary number for a year. This leave includes payments for accumulated sick leave and vacation leave, or for payments in lieu of taking compensatory time off, upon the termination of employment or retirement. Money may be transferred to this fund from any fund from which the termination or salary payments could lawfully be made. The reserve must be established by resolution or ordinance and the taxing authority may rescind the fund at any time with the accumulated resources being returned to the fund from which they came. Amounts accumulated in this fund should be reasonable based on the taxing authority's estimated liability for benefits.
3. Ohio Rev. Code § 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds<sup>4</sup> to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite Ohio Rev. Code § 5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came.
4. Ohio Rev. Code § 5705.132 permits *townships* to establish by resolution reserve balance accounts in addition to those described above to accumulate currently available resources for any purpose for which the board of township trustees may lawfully expend township money.<sup>5</sup> The resolution must state the:
  - Specific purpose for which a reserve balance account is established,
  - Fund within which it is established,
  - Fund or account from which money will be transferred to it,
  - Number of years it will exist [there is a five year cap on how long the account may be in existence]
  - Maximum total amount of money that may be credited to it during its existence; and
  - Maximum amount of money to be credited to it each fiscal year it exists

Reserve balance accounts established under this authority may exist for not more than five years beginning with the year in which money is first set aside. In addition, money in such an account can be expended only for the purpose for which the account is established.

Money may be transferred to these new reserve balance accounts from another township fund or account only if money in that fund or account may lawfully be expended for the purpose for which the

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<sup>4</sup> Similar to the preceding note, GAAP/OCBOA governments should report these amounts as *committed, assigned, or restricted* fund balance as appropriate under the circumstances described in GASB Statement No. 54 in governmental fund statements. Entity wide statements should report this equity as part of *unrestricted net assets*, because the restrictions are not externally imposed. Note: Bulletin 2020-008 simplified the reporting of fund balance classifications in the AOS regulatory cash basis financial statements and footnotes beginning with the December 31, 2020 FYE reporting.

<sup>5</sup> Similar to reserve balance accounts created under existing law, reserves created under this section are not considered as an unencumbered balance or revenue of the township for purposes of annual budget reviews by the county budget commission. They are also not considered as an unencumbered balance or revenue for purposes of apportioning the county's undivided local government fund and the undivided local government revenue assistance fund.

new reserve balance account is created. Townships may create more than one reserve balance account under this section. However, the total amount of money credited to *all* of the reserve balance accounts established under this section cannot exceed, ***at any time in any fiscal year***, 5% of the total of the township's revenue from all sources for the preceding fiscal year, plus any unencumbered balances carried over to the current fiscal year from the preceding fiscal year. There are three important aspects of this restriction. First, be aware that it is based on revenues only. Other financing sources such as debt proceeds or transfers will not count toward the calculation of the limitation.<sup>6</sup> Second, recognize that this language has the effect of allowing the same dollars to be counted twice in calculating the limitations, first when they were received in the prior year and second to the extent they are carried over as unencumbered into the current year. Finally, notice that the amount of the limitation changes each year because it is based on the preceding year's revenues.

If a township does not expect to spend the money set-aside in a reserve balance account in the upcoming year, the money in the reserve balance account need not be included in the certificate of year-end balances filed with the budget commission at the beginning of the year. If the township plans to spend the money that has been set aside, the township should include the money in the certificate of year-end balances. The money will then be included in the amended certificate of estimated resources and may be appropriated and spent during the year. Appropriations should be made to an account that reflects the purpose of the reserve. Appropriations should not be made to, nor expenditures made from, a reserve balance account. For example, assume in 2006 a township created a reserve balance account not to exceed \$40,000 in the motor vehicle license tax fund to purchase a new mower. \$10,000 is set aside each year from 2006 through 2009. In 2010, the \$40,000 is included in the certificate of year-end balances and appears as part of the amended certificate. The money is appropriated in the capital outlay account in the motor vehicle license tax fund and the new mower is purchased.<sup>7</sup>

Upon the expiration or rescission of a reserve balance account created under this section, any unexpended balance in the reserve account must be transferred to the fund or account from which money in the account was originally transferred. If money was transferred from multiple funds or accounts, a pro rata share of the unexpended balance must be transferred to each of them proportionate to the amount originally transferred from that fund or account.

**Note:** Steps 5 and 6 do not apply to a subdivision or taxing unit for which the county budget commission has waived the requirement to adopt a tax budget pursuant to section 5705.281 of the Revised Code. The tax budget shall present the following information in such detail as is prescribed by the Auditor of State.

5. Ohio Rev. Code § 5705.29(A)(1) Allows entities (except schools) to establish contingencies, not designated for any particular purpose (contingency reserve balance – spending reserve) and not to exceed 3% of appropriations for current expenses.
6. Ohio Rev. Code § 5705.29(A)(1) Allows school districts to establish contingencies, not designated for any particular purpose (contingency reserve balance – spending reserve) and not to exceed 13% of appropriations for current expenses.
  - a. In the fiscal year in which a levy is first extended, an estimate of expenditures to be known as a **voluntary contingency reserve balance**, which shall not be greater than 25% of the total amount of the levy estimated to be available for such year. (Ohio Rev. Code § 5705.29(E)(1)).

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<sup>6</sup> Appendix IV-5 of the March 2019 [Ohio Township Handbook](#) lists all *Other Financing Sources*.

<sup>7</sup> For the purpose of setting aside money for the purchase of a capital asset, it may be easier and more convenient to create a separate capital projects fund under the provisions of Ohio Rev. Code § 5705.13.

- b. In the fiscal year following the year in which a levy is first extended an estimate of expenditures to be known as a **voluntary contingency reserve balance**, which shall not be greater than 20% of the total amount of the levy estimated to be available for such year. (Ohio Rev. Code § 5705.29(E)(2))

The full amount of any reserve balance shall be retained by the county auditor and county treasurer out of the first semiannual settlement of taxes until the beginning of the next succeeding fiscal year where it shall be turned over to the board of education to be used for the purposes of such fiscal year. Except in cases where by two thirds vote, the board of education appropriates (for any lawful purpose) any amount withheld for this contingency during the fiscal year; wherein, the county auditor shall draw a warrant payable (from the districts account) to the district in the amount requested. (Ohio Rev. Code § 5705.29(E)(3-4))

7. *County Board of Developmental Disabilities*

Ohio Rev. Code § 5705.222(C) requires the county auditor, upon receipt of a resolution from the county board of developmental disabilities, to establish a capital improvements account or a reserve balance account, or both, as specified in the resolution. The capital improvements account shall be a contingency account for the necessary acquisition, replacement, renovation, or construction of facilities and movable and fixed equipment. Upon the request of the county board of developmental disabilities, moneys not needed to pay for current expenses may be appropriated to this account, in amounts such that this account does not exceed twenty-five per cent of the replacement value of all capital facilities and equipment currently used by the county board of developmental disabilities for developmental disabilities programs and services. Other moneys available for current capital expenses from federal, state, or local sources may also be appropriated to this account.

The reserve balance account shall contain those moneys that are not needed to pay for current operating expenses and not deposited in the capital improvements account but that will be needed to pay for operating expenses in the future. Upon the request of a county board of developmental disabilities, the board of county commissioners may appropriate county funds, including funds from federal and state sources, to the reserve balance account. The total balance in a reserve balance account shall not exceed forty per cent of the county board of developmental disabilities' expenditures for all services in the preceding calendar year. Amounts in a capital improvements account or reserve balance account that are not in excess of the limitations prescribed in this division shall be considered reasonable and shall not be taken into consideration by the county budget commission when determining whether to reduce the taxing authority of a county under Ohio Rev. Code § 5705.32.