



RESERVE BALANCE ACCOUNTS

ORC 5705.13,
and 5705.222,
5705.29,
5705.132





ORC 5705.13*

- (A) Budget Stabilization and Self-Insurance.*
- (B) Leave Accumulation for Terminated or Retired Employees.
- (C) Acquisition, Construction, or Improvement of Fixed Assets.*

* Department of Developmental Disabilities ORC 5705.222(C)



ORC 5705.13(A)*

1) To stabilize subdivision budgets against cyclical revenue and expenditure fluctuations.

- Established by Ordinance or Resolution stating purpose, fund, and amount.
- May be rescinded or reduced at any time by Ordinance or Resolution.
- Available for General Fund or Special Funds.
- Annual contribution (except DoDD) is capped at the greater of:
 - 5% of preceding year revenue, or
 - 1/6 of preceding year expenditures.
- Annual contribution (DoDD) is capped at:
 - Not to exceed 40% of preceding year expenditures.
 - Shall be considered reasonable by the BC.

* Department of Developmental Disabilities ORC 5705.222(C)



ORC 5705.13(A)*

2) To provide for payments of claims and deductibles under a self-insurance program.

- Established by Ordinance/Resolution stating purpose, fund, and amount.
- May be rescinded/reduced at any time by Ordinance/Resolution.
- Available for General Fund or Internal Service Fund.
- Only one (1) permitted per purpose.
- Annual contribution is based on sound actuarial principles.



ORC 5705.13(A)*

3) To provide for payments of claims, assessments, and deductibles under a self-insurance program, retrospective ratings plan, group rating plan, medical only plan, deductible plan, or worker's compensation program.

- Established by Ordinance or Resolution stating purpose, fund, and amount.
- May be rescinded or reduced at any time by Ordinance or Resolution.
- Available for General Fund or Internal Service Fund.
- Only one (1) permitted per purpose.
- Annual contribution is based on sound actuarial principles.

* Department of Developmental Disabilities ORC 5705.222(C)





ORC 5705.13(B)

To provide for payments of accumulated sick and vacation leave or in lieu compensatory time upon termination or retirement of employees.

- Established by Ordinance/Resolution stating purpose, fund, and amount.
- May be rescinded or reduced at any time by Ordinance or Resolution.
- May also be used to accumulate salaries for excess pay period years (ex. leap year).
- Only one (1) permitted.



ORC 5705.13(C)*

- Used for accumulating resources for acquisition, construction, or improvement of fixed assets.
 - ✓ Established by Ordinance/Resolution stating source, purpose, term, and amount to accumulate* (DoDD = can't exceed 25% of all assets).
 - ✓ May be rescinded/reduced at any time by Ordinance/Resolution.
 - ✓ Available for most funds.
 - ✓ Multiple Reserve Funds are permitted.
 - ✓ May include motor vehicles.
 - ✓ Term shall not exceed 10 years* (except DoDD).



ORC 5705.13(C)*

Purpose:

Utilizing Capital Projects Funds ("CPF") properly under Ohio Revised Code Section 5705.13(C) is an excellent and available tool for a taxing authority to set aside funds for capital improvement projects while improving accountability and transparency to its constituency and overseeing authorities.¹ Responsible governance includes creating and implementing a logical system and methodology of preparedness to assure resources are available when fixed assets require repair, replacement, modification, and improvement. Many government entities currently co-mingle and embed fixed asset replacement and improvement money with operations and maintenance (O&M) funds, clouding insight for the legislative body, general public, and external oversight authorities. Creating and using a CPF permits readily available, clear vision into a local government's set aside resources for specific, defined, fixed assets without being confused or combined with everyday O&M resources.

* Department of Developmental Disabilities ORC 5705.222(C)



Capital Project Funds (CPF)



Best Practices:

- Obtain an independent Capital Reserve Study (CRS).
- Pass a Resolution or Ordinance including:
 - Asset Exhibit or CRS.
 - Initial seed amount for CPF.
 - Amount of money to be accrued*.
 - Term (< or = 10 years)*.
 - Source of resources or “parent” fund.
 - Right to rescind.
 - Follow Ohio Compliance Supplement standard account makeup.
- Prepare and execute an internal “Request for Fund Approval” form.
- Create the CPF and transfer seed amount as passed.
- Certify CPF Resources with County Auditor.
- Appropriate as needed following proper GAP standards.

* Department of Developmental Disabilities ORC 5705.222(C)



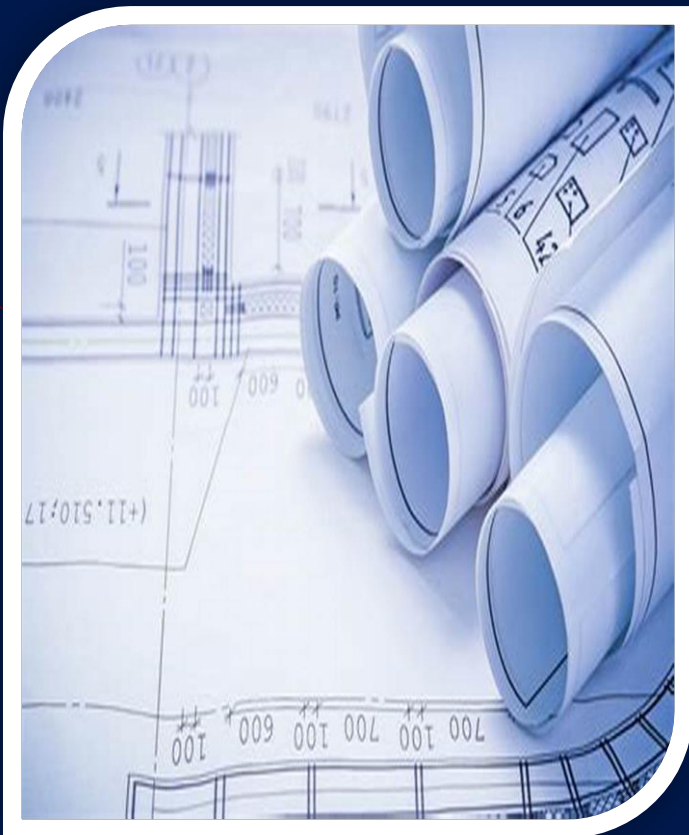
Capital Reserve Study (CRS)

- How to find a legitimate source.
 - Google “Capital Reserve Study” and obtain quotes.
 - Obtain references.
 - Look for government experience.
- Define assets and level of granularity.
 - Break up by department, building, burden center, etc.
 - Establish dollar low threshold.
 - Work with CRS engineer during assessment phase.





CRS – Capital Reserve Study



- Obtain and interpret study results.
 - Determine annual funding requirement.
 - Educate department heads and electeds.
- Google available resources:
 - Obtain “sample” study.
 - Check for government experience.
 - Interview and obtain proposals or quotes.
 - Determine level of detail desired.
 - Break out by logical departments or burden centers.
 - Work with the assessor when doing on-site census.



CRS – Capital Reserve Study

CAPITAL RESERVE CONSULTANTS

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Want to l

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SCHOOL OR RELIG

Miller+Dodson, Capital Reserve Consultants

Long-term thinking. Everyday commitment.

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Reserve Advisors is very easy to work with. The final report is clear and understandable.

Debbie Sutton
Community Manager
Topyard Farm Homeowners Association
King George, VA

Reserve s

Most reserve studies of a community association when they are incurred generated tables of t

Our easy-to-use Reserve costs to project-spec confidence. Better yet platform to evaluate

Contents of

Ease-of-use is the pr you're getting a real Study, you'll find...

Executive Summary w

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The Helsing Group

ENABLING QUALITY HOA GOVERNANCE

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COVID-19 VIRUS

The health and safety of our employees is our first priority as we navigate the effects of the COVID-19 virus. We are focused on providing service to our clients and will be operational from our employee's homes - please email your requests to us rather than call and most of what we can do for you will function as normal. It is imperative now more than ever that you use your specific Association email if you are a member in an Association we manage. There may be a bit of a delay for a couple of days as we implement telecommuting, and we ask you to keep that in mind. We appreciate your patience and understanding.

Employees will be attending all meetings via virtual or teleconference methods until further notice. As the situation evolves we will work to keep you informed. We wish you health and safety during this time and expect to return to normal functions as soon as the restrictions have been lifted.

Thank you,
The Helsing Group, Inc.

12



Resolution or Ordinance

- State purpose and identify the following:
 - Assets to include (exhibit or CRS).
 - Source of funds (parent, loan, etc.).
 - Initial seed money (if applicable).
 - Amount of money to be accrued*.
 - Term ($<$ or $=$ 10 years)*.
 - Acknowledgment of money return target.
 - Acknowledgment of right to rescind.
 - The standard account makeup (Use Ohio Compliance Supplement 1-8).



* Department of Developmental Disabilities ORC 5705.222(C)



Township

Resolution 20__-__

**A RESOLUTION REQUESTING THE
ESTABLISHMENT OF CAPITAL PROJECTS FUND(S)
PURSUANT TO AND AS ALLOWED BY OHIO
REVISED CODE § 5705.13(C)**

The Board of Trustees of _____ Township, _____ County, Ohio, met in [special/regular] session on the ____ day of _____, 20__, at the [insert location] with the following members present: [insert Board members present]

WHEREAS, it is the desire of the _____ Township Board of Trustees (the Board) that, pursuant to R.C. 5705.13(C) there be established within the appropriations of _____ Township (the Township) [insert number of funds being established] Capital Project Funds, more fully described below, for the purpose of accumulating resources for the acquisition, construction, or improvement of fixed assets of the Township; and

WHEREAS, the Township had the [insert name of reserve study that was completed] completed [insert date] (the Reserve Report) in order to [identify purpose of report]. A copy of the Reserve Report is attached to this Resolution as Exhibit ____ and incorporated herein; and

WHEREAS, it is the desire of the Board to establish "Fund ____: Capital Project Fund – [identify new fund name] Reserve Items" for the purpose of the acquisition, construction and/or improvement of fixed assets as identified in the Reserve Report, Section(s) [identify specific sections if not a reference to the entire report]. The Board intends to accumulate \$[insert amount] over a [insert number of years not to exceed 10 years]-year period of time. The source of money to accumulate said monies for Fund ____ is Fund [identify fund or funds where monies will come from]; and

WHEREAS, it is the desire of the Board to authorize an initial transfer of \$[insert amount] from Fund ____ to newly established Fund ____; and

WHEREAS, it is the desire of the Board to establish "Fund ____: Capital Project Fund – [identify new fund name] Reserve Items" for the purpose of the acquisition, construction and/or improvement of fixed assets as identified in the Reserve Report, Section(s) [identify specific sections if not a reference to the entire report]. The Board intends to accumulate \$[insert amount] over a [insert number of years not to exceed 10 years]-year period of time. The source of money to accumulate said monies for Fund ____ are [identify fund or funds where monies will come from]; and

WHEREAS, it is the desire of the Board to authorize an initial transfer of \$[insert amount] from Fund ____ to newly established Fund ____ and a transfer of \$[insert amount] from Fund ____ to newly established Fund ____; and



Township

Resolution 20__-__

WHEREAS, money shall not be accumulated in any of the above referenced funds for more than [insert number of years not to exceed 10 years] years after the date that this Resolution establishing the funds is adopted; if the Township has not entered into a contract for the acquisition, construction, or improvement of fixed assets for which money was accumulated in such fund(s) before then end of the [insert identified period of time from above] year period, the Township Fiscal Officer shall transfer all money in the fund to the fund or funds from which that money originally transferred or the fund that originally was intended to receive the money; and

WHEREAS, the Board has the authority, by resolution, to rescind any or all of the capital projects funds established by this Resolution. If any capital projects fund is rescinded, money accumulated in the fund shall be transferred to the fund or funds from which the money originally was transferred.

NOW THEREFORE BE IT RESOLVED, that the Board does hereby request that the Township Fiscal Officer establish the four Capital Project Funds as described above pursuant to and as permitted by R.C. 5705.13(C).

Adopted on: _____

Motion made by _____ and seconded by _____.

The Resolution and the roll being called upon its adoption the vote resulted as follows:

_____ Township Trustees voting thereon:	Vote:
Trustee _____	_____
Trustee _____	_____
Trustee _____	_____

Chairman _____

Fiscal Officer _____

I, _____, Fiscal Officer of _____ Township, Geauga County, Ohio, certify that the foregoing is a true and correct copy of the resolution adopted at a legally convened _____ Township Board of Trustees meeting held on the ____ day of _____, 20__.

Fiscal Officer



Request for Fund Approval



“Request for Fund Approval” form:

- Optional.
- No Auditor of State approval is needed (per AoS Bulletin 99-006).
- Have legislative authority approve.

TO: Fiscal Officer of All Subdivisions
All Independent Public Accountants

SUBJECT: Requests for New Funds

The Auditor of State receives numerous requests to establish new funds under the provisions of Ohio Rev. Code §5705.12 which states:

In addition to the funds provided for by sections 5705.09, 5705.121, 5705.13, and 5705.131 of the Revised Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the auditor of state, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than the general property tax shall be paid directly into such funds. The auditor of state shall consult with the tax commissioner before approving such funds.

The purpose of this Bulletin is to identify when a request under this code section is required and when a local government may create a new fund without the Auditor of State's approval.

When Requests are Unnecessary

Approval to establish a new fund is unnecessary when the creation of the desired fund is already authorized or required by statute. Whenever the creation of a fund is authorized or required by statute, either specifically by name, or in general, a separate letter requesting permission to establish the fund is not required.

Examples of specific statutory requirements are found in Ohio Rev. Code §3313.81, which requires that school districts establish food service funds, and in Ohio Rev. Code §5747.50, which requires that each county establish an undivided local government fund. Similar statutory provisions requiring the creation of a specific fund are scattered throughout the Revised Code.

General statutory requirements for the creation of funds are found in Ohio Rev. Code §5705.09. This code section states:

Each subdivision shall establish the following funds:

(A) General fund;

(B) Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;

COUNTY OF GEAUGA

REQUEST FOR FUND APPROVAL OR ADDITIONAL LINE ITEMS

1. Department: Commissioners
2. Department Head: Gerry Morgan, County Administrator
3. Telephone Number: x1673
4. Date of Request: TBD
5. Fund Requested: TBD (Capital Reserve Fund)
6. Purpose of Fund: To track all income and expenses associated with the construction of new buildings and/or renovations and improvements of existing buildings or properties that are owned or will be owned by Geauga County.
7. Sources of Revenue: Transfers, Grants, Debt, Notes, Bonds, Other
8. Anticipated Expenditures: Transfers, Contracts, Projects, Land Purchase, Legal Equipment, Other
9. Additional Revenue Line Item requested (INCLUDE FUND NAME ON LINE 5):

10. Additional Expense Line item requested (INCLUDE FUND NAME ON LINE 5):

COMPLETE LINES 1-8 FOR A NEW FUND.

NOTE: This form must have a copy of the resolution of fund approval attached.

COMPLETE LINES 1-5, 9, 10 FOR NEW LINE ITEMS REQUESTED.

AUDITOR'S USE ONLY:

Date Received - _____ New Fund Established - _____

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AUDITOR OF STATE REQUEST FOR FUND APPROVAL

Entity: _____

Fiscal Officer: _____

Phone No.: _____

Request Date: _____

Fund Requested: _____

Purpose of Fund: _____

Sources of Revenue: _____

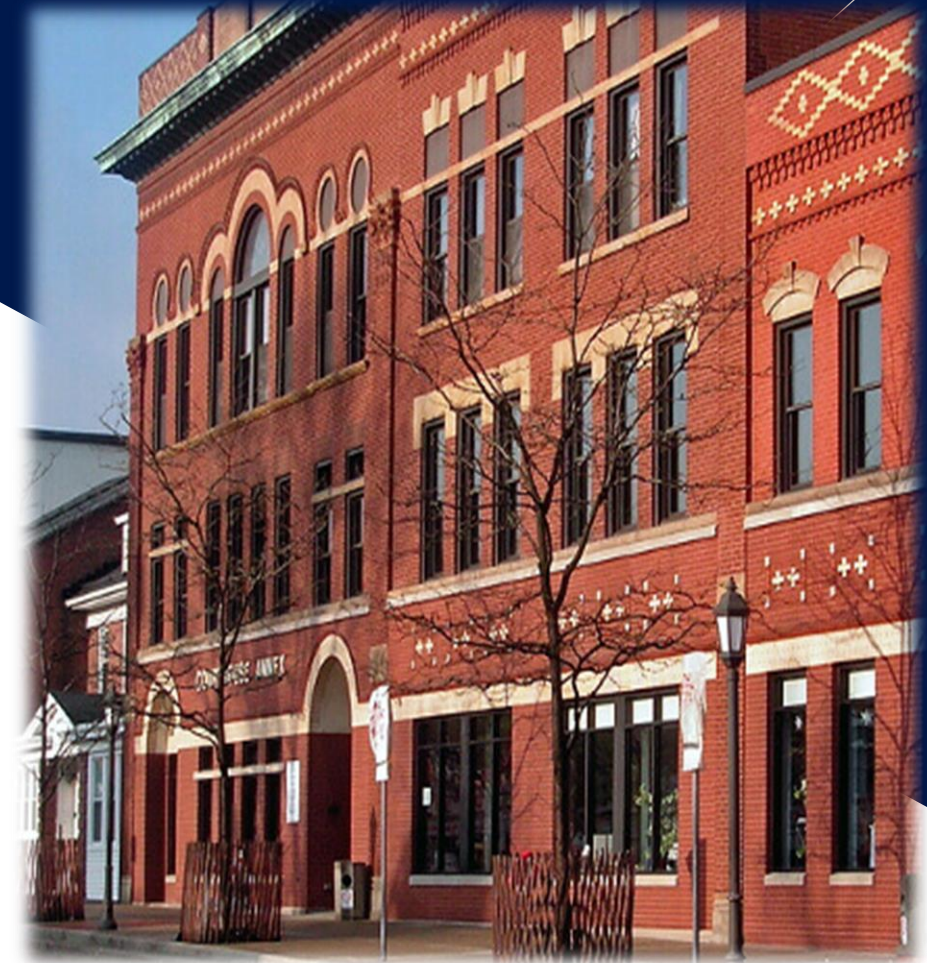
Anticipated Expenditures (Types): _____

NOTE: Please attach a copy of the resolution requesting approval to establish the fund.



CPF Compliance

- Establish to Ohio Compliance Supplement Standards.
 - https://ohioauditor.gov/references/compliancemanuals/2022/Chapter1_2022.pdf
 - Review OCS Section 1-8 - Reserve Balance Accounts and Funds (OCS Pages 35-41).
 - Review Suggested Audit Procedures and Substantive Compliance Tests (OCS Pages 39-40).





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 account²⁵ 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 year²⁶. 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' Compensation²⁷: 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.

²⁵ 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.

²⁶ 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.

²⁷ 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.



Suggested Audit Procedures - Compliance (Substantive) Tests:

1. If reserve balance accounts have been established:
 - Determine through vouching, review of minutes, and inspection of accounting ledgers and authorizing legislation, whether reserve accounts were only established in the general fund, special fund used for operating purposes or appropriate internal service fund and for permitted purposes (budget stabilization, self-insurance program, or retrospective ratings program for worker's compensation).
 - Recalculate reserve percentages and inspect worksheets and accounting ledgers to determine whether the amount reserved exceeded the 5% cap (budget stabilization account). In the case of Townships or Counties see footnote 26.
 - For self-insurance and worker's compensation reserve accounts, compare amounts reserved to estimates received from the entity's actuary.
2. If a "severance payout reserve" or "capital improvement reserve" fund has been established:
 - Review minutes, ordinances and resolutions to determine whether the fund has been established by resolution or ordinance.
 - If a capital improvement reserve fund has been established, review the authorizing legislation to determine whether the assets; amount required; accumulation period (not to exceed ten years); and source of funding have been identified.
 - Select a representative number of disbursement transactions from the fund. Through vouching, determine whether the transactions were only for related activities as indicated above, and in accordance with the purpose stated in the authorizing legislation.
 - Trace a representative number of transfers to the reserve fund and determine whether the transfers were from funds permitted to make the disbursements for which the reserve fund was established.
 - Determine through inspection of worksheets, ledgers and other such documents, whether records reasonably provide for the return of accumulated resources, to the fund from which they were originally transferred or the fund intended to receive them (If records do not reasonably provide for the proper return of resources, this situation would generally result in a recommendation; a noncompliance citation should not be made).
3. If the reserve fund was rescinded or if the ten-year period has elapsed prior to entering into a contract (capital improvement reserve fund), determine through inspection of worksheets and accounting ledgers whether the accumulated resources were returned to the fund from which they were originally transferred or the fund intended to receive them.
4. If a township has established an additional reserve balance account(s), determine whether the necessary resolution, stating the purpose of the reserve account, has been adopted by the board of trustees.
 - Review monies transferred to the new township reserve balance accounts from other township funds or accounts and determine whether those monies may lawfully be expended for the purpose for which the new reserve balance account was created.



Certify & Appropriate

- Certify Funds with the County Auditor.
- Appropriate Funds if Needed.





Common Pitfalls

- **Failure to comply with all threshold requirements:**
 - Identifying source fund.
 - Establishing total dollar threshold (maximum).
 - Establishing annual dollar threshold (maximum).
- **Lack of independent study or expert:**
 - “We are going to build a \$2m addition”.
 - “We figured about \$500k for a new roof”.
- **Duplicity or conflict of Assets:**
 - Reserving for an improvement but also budgeting for it elsewhere.
 - Reserving assets that are scheduled to be destroyed or abandoned.





Budget Commission Tests



(F) Except as otherwise provided in this division, the county budget commission shall not reduce the taxing authority of a subdivision as a result of the creation of a reserve balance account. Except as otherwise provided in this division, the county budget commission shall not consider the amount in a reserve balance account of a township, county, or municipal corporation as an unencumbered balance or as revenue for the purposes of division (E)(3) or (4) of section 5747.51 of the Revised Code. The county budget commission may require documentation of the reasonableness of the reserve balance held in any reserve balance account. The commission shall consider any amount in a reserve balance account that it determines to be unreasonable as unencumbered and as revenue for the purposes of section 5747.51 of the Revised Code and may take such amounts into consideration when determining whether to reduce the taxing authority of a subdivision.

Summary

Conclusion:

Leveraging the advantages of R.C. 5705.13(C)'s CPF comes with a responsibility to apply sound, prudent methodology to the key components that ensure that Capital Projects Funds are being used in accordance with their intended purposes and not as a means to reduce transparency of financial information, wealth, or health. To that end, R.C. 5705.29(F) offers taxing authorities flexibility and freedom to legally and prudently set aside funds with specific authority granted to the County Budget Commission to test the reasonableness of the balances held in these reserve funds.⁸ Following this document's specific guidelines and the advice of your legal counsel in establishing, populating, maintaining, and expending money from a CPF will help ensure that the taxing authority is working in cooperation with the County Budget Commission in achieving our mutual goal of protecting taxpayer money through transparent, prudent governance.



ORC 5705.29 Contingency & Reserves

- ONLY permitted if tax budget is not waived per ORC 5705.281.
 - ORC 5705.29(A)(1)
 - Non-School contingency expense – up to 3% of current appropriations.
 - Schools contingency expense – up to 13% of current appropriations.
 - ORC 5705.29(E)
 - Schools – May utilize voluntary contingency reserves for proposed levies up to 25% of the levy.
 - ORC 5705.29(F)
 - Budget Commission restriction on Reserve Balance accounts unless considered “unreasonable”.



ORC 5705.132 (Townships Only)

— Reserve Balance Account

- For purposes other than established under ORC 5705.13.
- Established by Resolution.
 - State purpose.
 - Fund within account is established.
 - Fund or account which money is sourced.
 - Term (not to exceed 5 fiscal years, beginning with the year created.
 - Total amount accumulated (not to exceed 5% of total revenue for preceding year).
- Reserve balance is not considered part of unencumbered balance.
- More than one may be established.



Thank You.

QUESTIONS?

