

Mary Taylor, CPA Auditor of State

Bulletin 2007-002

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TO: Township Trustees
Township Fiscal Officers
Township Administrators
County Auditors
All Independent Public Accountants

FROM: Mary Taylor, CPA
Auditor of State

SUBJECT: New Authority for Townships to Create Reserve Balance Accounts

Background

The purpose of this Auditor of State Bulletin is to inform you of a new statute that grants additional authority to townships. The new code section is 5705.132 R.C. (attached), which passed as part of House Bill 385 and became effective September 21, 2006. The statute authorizes the board of township trustees to create reserve balance accounts for any purpose for which the board may lawfully spend township money, except those already authorized by section 5705.13, R.C.¹ Reserve balance accounts provide a mechanism to set aside money for a particular purpose without it being reported in the certificate of year-end balances. Therefore, reserve balance accounts decrease the risk of having the county budget commission reduce property tax rates.

Establishing the Reserve Balance Accounts

Reserve balance accounts must be established by resolution of the board of trustees. The resolution must identify the purpose of the account, the fund in which the account will be established, the number of years the account will exist and the fund or funds from which money may be transferred to the account. The resolution must specify the maximum total amount of money that may be credited to the account during its existence and the maximum amount of money to be credited to the account each year the account exists.

¹ Under section 5705.13, R.C. reserve balance accounts were already authorized for budget stabilization, to pay claims under a self-insurance program and to pay claims under a retrospective rating plan for workers' compensation.

The board of trustees, by subsequent resolution, may change the amount to be credited and the source from which money is transferred.

Reserve balance accounts may exist for not more than five years beginning with the year in which money is first set aside. Money in a reserve balance account may be spent only for the purpose for which the account was created. Money may be transferred to the reserve balance account from another fund of the township only if money in that fund or account may lawfully be expended for the purpose for which the reserve balance account is created.

Establishing Multiple Reserve Balance Accounts

The township may create more than one reserve balance account under this section. However, the total amount of money to the credit of all reserve balance accounts established under this section at any time in any year may not exceed five percent of the total of the township's revenue from all sources from the preceding year, plus any unencumbered balances carried over to the current year from the preceding 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.² Second, recognize that this language has the effect of allowing the same dollars to be counted twice in calculating the limitation, 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.

Other Requirements

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.³

² Page IV-5 of the December, 2006 Ohio Township Manual lists all *Other Financing Sources*.

³ 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 section 5705.13, R.C.

Reporting

Money in a reserve balance account at year-end should be reported on GAAP look-alike statements as a designation of fund balance in the fund in which the reserve balance account was created. A designation of fund balance indicates the purpose for which the township currently expects to spend the money. For the example from the motor vehicle license tax fund, the designation might read “Designated for capital outlay” or “Designated for purchase of mower.”

Support for Audit Purposes

During an audit it will be the responsibility of the township to be able to identify the specific resolution authorizing the creation of each reserve balance account. In addition, the township must be able to provide adequate documentation to demonstrate that no reserve balance account has existed for more than five years, that at no time was the dollar limitation for all reserve balance accounts exceeded and that money accumulated in a reserve balance account was eventually spent for the purpose authorized in the resolution creating the account.

Questions

Questions concerning this Bulletin may be directed to the Local Government Services Section of the Auditor of State’s Office at (800) 345-2519.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive style with a vertical line to the left of the first letter.

Mary Taylor, CPA
Auditor of State

5705.132

In addition to any reserve balance account established under [section 5705.13](#) of the Revised Code, a board of township trustees, by resolution, may establish a reserve balance account to accumulate currently available resources for any purpose for which the board may lawfully expend money of the township other than for the purposes for which a reserve balance account may be established under [section 5705.13](#) of the Revised Code. Money may be transferred to the reserve balance account from another fund or account of the township only if money in that fund or account may lawfully be expended for the purpose for which the reserve balance account is created. A reserve balance account created under this section may exist for not more than five fiscal years beginning with the first fiscal year in which money is credited to the account. The total amount of money to the credit of all reserve balance accounts established under this section at any time in any fiscal year shall not exceed five per cent of the total of the township's revenue from all sources for the preceding fiscal year and any unencumbered balances carried over to the current fiscal year from the preceding fiscal year. Money in a reserve balance account shall be expended only for the purpose for which the account is established. More than one reserve balance account may be established under this section.

The resolution establishing a reserve balance account shall state the specific purpose for which the account is established, the fund within which the account is established, the fund or account from which money shall be transferred to the account, and the number of years the account will exist. The resolution shall specify the maximum total amount of money that may be credited to the account during its existence and the maximum amount of money to be credited to the account each fiscal year the account exists. The board, by subsequent resolution, may change the amount to be credited and the source from which money is transferred, subject to the limitations of this section.

The board, by resolution, may rescind a reserve balance account established under this section before the expiration of the account. The board, by resolution, may extend the life of a reserve balance account, provided that the total number of years the fund exists shall not exceed five fiscal years beginning with the first fiscal year in which money is credited to the account.

Upon the expiration or rescission of a reserve balance account established under this section, any unexpended balance in the account shall be transferred to the fund or account from which money in the account was originally transferred. If money in the account originally was transferred from more than one fund or account, a pro rata share of the unexpended balance shall be transferred to each such fund or account proportionate to the amount originally transferred from that fund or account.

The balance to the credit of a reserve balance account shall not be considered part of the unencumbered balance or revenue of the township under division (A) of section 5705.35 or division (A)(1) of [section 5705.36](#) of the Revised Code.