



OHIO AUDITOR OF STATE FISCAL DISTRESS

FISCAL DISTRESS is a legislative mechanism used to identify financial problems as soon as possible and to provide assistance to entities in need.

An Evolving Process

Ohio's fiscal distress system was created in 1979 when the fiscal emergency law was enacted in response to a financial crisis in Cleveland. Since then, financial planning and supervision commissions have aided over 50 Ohio local governments declared to be in fiscal emergency.

In 1996, a "fiscal watch" status was created to provide an earlier warning to entities whose finances are approaching emergency status.

In 2011, Auditor Yost worked with legislators to include a "fiscal caution" designation to the fiscal distress system. This serves as a precursor to the more serious "fiscal watch" and "fiscal emergency" designations.

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The Local Government Services team assists local governments with financial, accounting and budgetary concerns, and can aid governments in fiscal distress.

Fiscal Caution

Fiscal caution can be declared for any one of a number of conditions that are signs of financial stress. These include:

- Unauditable financial records
- Significant deficiencies in accounting, financial reporting and compliance with laws and regulations
- Year-end deficits in any fund that exceed 2 percent of the fund's revenue
- Carry-over balances in any fund that equal or fall short of one month of expenditures for two consecutive years
- The government has not reconciled its accounts for more than three months and can't meet a one-month deadline to do so

Once designated in fiscal caution, the entity has 60 days to submit a proposal to fix the problem. The Auditor's office can provide assistance paid for by the state. If the entity fails to provide a reasonable proposal, the auditor can declare the entity to be in fiscal watch or fiscal emergency. The entity can be released from fiscal caution by correcting the problem that prompted the designation.



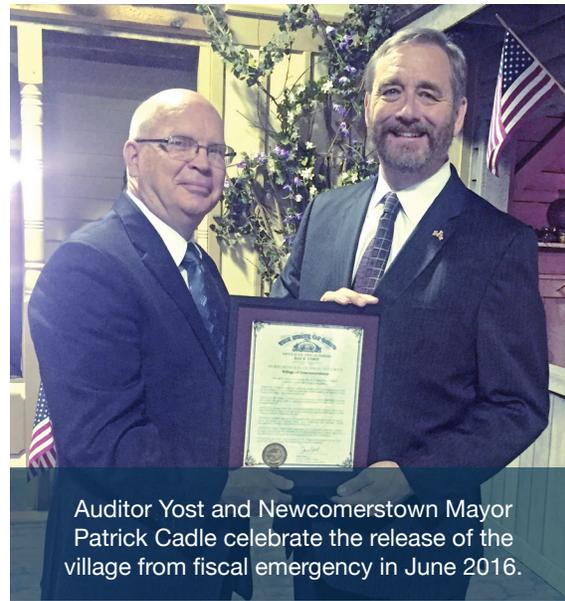
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Fiscal Watch

Fiscal watch can be declared for any one of these conditions:

- All accounts that were due and payable from the General Fund for more than 30 days — less the year-end balance — exceeded 1/12 of the budget for the year.
- All accounts that were due and payable from all funds for more than 30 days — less the year-end balance — exceeded 1/12 of the available revenue for the preceding fiscal year from these funds.
- Total deficit funds — less the total of any balances in the General Fund and any special fund — exceeds 1/12 of the total General Fund budget for that year and the receipts during that year (other than transfers from the General Fund).
- Money and marketable investments — less outstanding checks, and total positive fund balances of General Fund and special funds — exceeds 1/12 of the total amount received during the preceding fiscal year.
- Based on a financial forecast, the Auditor certifies that the General Fund deficit at the end of the current fiscal year will exceed 1/12 of the General Fund revenue from the preceding fiscal year.

Once designated, the entity has 90 days to submit a recovery plan subject to approval by the Auditor. If the entity fails to provide a plan by the deadline or has not taken action to correct fiscal practices that prompted the designation of fiscal watch, the Auditor can declare the entity to be in fiscal emergency. Fiscal watch continues until the Auditor determines that the problems have been corrected. The Auditor's office can provide assistance paid for by the state.



Auditor Yost and Newcomerstown Mayor Patrick Cadle celebrate the release of the village from fiscal emergency in June 2016.



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Fiscal Emergency

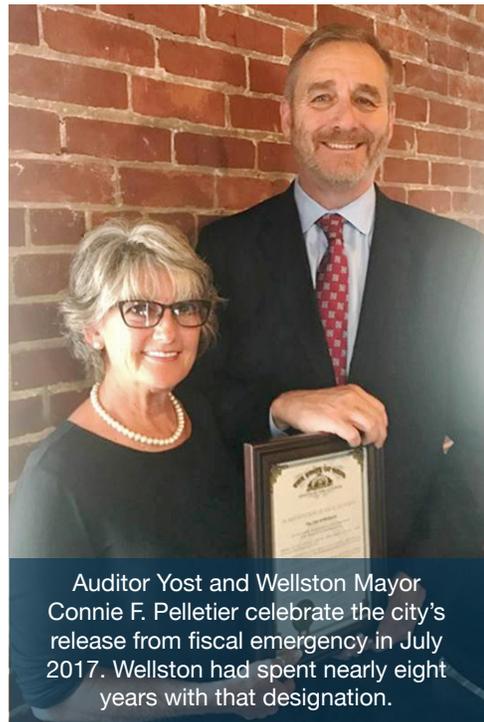
Any one of these factors can prompt a designation of fiscal emergency:

- The same first three conditions as fiscal watch, except the budget threshold fraction is 1/6 instead of 1/12, with the added requirement that the condition continues at least four months after the end of the fiscal year.
- Failure to pay employees for more than 30 days and a period of agreed-upon extension that cannot last more than 90 days.
- Default on payment on any debt obligation for more than 30 days.
- An increase in the inside millage by the County Budget Commission that results in a reduction for any of the overlapping subdivisions or taxing districts.

Entities declared in fiscal emergency come under the oversight of a financial planning and supervision commission whose makeup includes local and state officials as well as three local residents. The Auditor's office serves as the financial supervisor to the commission. For a village or township with a population of fewer than 1,000, the Auditor serves as the financial supervisor and has all the powers of a commission.

Fiscal emergency ends when these conditions are met:

- An effective financial accounting and reporting system is being implemented.
- All fiscal emergency conditions are being eliminated.
- Financial recovery plan objectives are being met.
- The entity has a five-year financial forecast that the Auditor's office determines is "nonadverse".



Auditor Yost and Wellston Mayor Connie F. Pelletier celebrate the city's release from fiscal emergency in July 2017. Wellston had spent nearly eight years with that designation.