



Auditor of State Bulletin

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TO: Municipalities
Townships
County Commissioners
Independent Public Accountants

GASB 84 eliminated agency funds. Most often existing agency funds will become custodial fund, however, GASB 84 criteria should be evaluated for proper fund classification. Unlike agency funds, GASB 84 requires financial statements be presented to report custodial fund activity. See AOS Bulletin 2020-003

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SUBJECT: Audit and Financial Reporting Requirements for Joint Economic Development Districts

in this bulletin, "JEDD" also includes Joint Economic Development Zones (JEDZ) formed per ORC 715.691.

Overview

This bulletin describes communications we require for Joint Economic Development Districts (JEDD), as well as certain JEDD activity financial reporting considerations.

Ohio Rev. Code Sections 715.70 through 715.83 govern the creation and operation of JEDD.

These Sections permit one or more townships and one or more municipalities to contribute resources for cooperative economic development and / or to provide services such as water and sewer utilities. These Sections also authorize JEDD to levy a district-wide income tax.

For *example*, a township may have a nonresidential (i.e. business) area needing water and sewer utilities and an adjoining municipality may have water and sewer utilities. Establishing a JEDD is one method by which a municipality can extend its utility services into a township.

JEDD Organization

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There are ~~three~~ statutory methods under which JEDD may organize:

- Ohio Rev. Code Section 715.70 or 715.71¹, or
- Ohio Rev. Code Sections 715.72 through .81

Or Joint Economic Development Zones formed per ORC 715.691.

These ~~three~~ methods have many similarities, but obviously are not identical. JEDD and their auditors should refer to the applicable Revised Code sections and the organizational *contract*²

¹ ORC 715.70 and 715.71 apply mainly to JEDD created in charter counties. As of this date, only Summit County has adopted a charter.

² Ohio Rev. Code Sections 715.70(B)(1), 715.71(B) or 715.72(C) describe these contracts for each of the three organizational methods.

creating JEDD when determining financial reporting, fund, and contract- compliance auditing requirements.

Information the Auditor of State Requires

The Ohio Revised Code requires each JEDD to submit the following information to the Auditor of State:

- Notification of the creation of a JEDD
- An unaudited annual financial report from each JEDD

The following explains these requirements.

Ohio Rev. Code 117.10 requires each public office to notify the Auditor of State within 30 days of its creation.

Though some JEDD may have existed for a number of years, we request that each municipality or township participating in a JEDD contact their regional state auditor's office³ and inform our office of the JEDD's existence, and the nature of its financial activities.

~~Our regional office will then determine the required auditing for each JEDD's activity.~~

~~We recognize that we may already be auditing much of the significant JEDD financial activity. For example, we already audit municipalities collecting and disbursing income taxes a JEDD levied. We will not require duplicative audits of these activities, but we request municipalities or townships notify us to help us assure we are aware of JEDD financial activity.~~

Each JEDD must also file an unaudited annual report with the Auditor of State, per Ohio Rev. Code Section 117.38. See Auditor of State Bulletin ~~2008-001~~ for more information about Ohio Rev. Code Section 117.38.

- JEDD annual reports should include receipts and disbursements from their own cash accounts
- JEDD annual reports should also include JEDD-levied income taxes
 - Though a municipality collects and distributes the tax, the JEDD levy the taxes and should report them as *tax* receipts and *intergovernmental* disbursements in their annual reports.

guidance is now in Bulletin 2015-07.

Fund Requirements for Member Municipalities and Townships

³ ~~You can find your regional Auditor of State Office's phone number at our website: www.auditor.state.oh.us Click on *Auditor's Office*, then *Audit Division*. The regional office links on the Audit Division page show the counties each regional office serves.~~

See *JEDD Reporting*, later in this Bulletin.

Please refer to the Resources/AOS Notifications tab on the website at: www.ohioauditor.gov

- If a municipality or township receives JEDD income taxes, or other amounts these governments may use for purposes sufficiently broad that the tax (or other receipt) is essentially unrestricted, the government should record the receipts in its general fund.
 - Municipalities or townships receiving JEDD income taxes should classify these amounts as *intergovernmental receipts* rather than as *taxes*, because the JEDD levies the tax rather than the municipality or township.
- Municipalities collecting and distributing JEDD income taxes should record amounts they receive and remit to other JEDD participants (or to the JEDD itself) in an agency fund.
- A municipality may provide water, sewer, electric, or other utility services to the JEDD “area” pursuant to Ohio Rev. Code Section 715.74. This activity should not require new funds if it merely extends the municipality’s existing utility services. The municipality’s existing utility funds are normally adequate to segregate cash received, disbursed or held for utility services.
- If municipalities or townships receive cash from the JEDD with substantive restrictions the JEDD imposes on its use, they should establish separate funds in their accounting system to segregate these amounts.
 - Establishing separate funds may require written permission from the Auditor of State. See Ohio Rev. Code Section 5705.12 and Ohio Compliance Supplement (OCS) Step ~~1-24~~. You can view the OCS under the *Publications* link at the Auditor of State’s website: www.auditor.state.oh.us

Currently in OCS step 1-4.

Auditing JEDD Activity

We will not require auditors of member townships or municipalities to test compliance with the organizational requirements of the Ohio Rev. Code. Instead, audit testing should focus on whether the member municipalities and townships have complied with terms of the *contract* relating to whether these governments are meeting their respective significant economic / financial requirements.

For example, Ohio Rev. Code Sections 715.70(D)(1), 715.71(F) and 715.74(A) include virtually identical language summarizing allowable financial activity. For example, Ohio Rev. Code Section 715.74(A) states:

The contract creating a joint economic development district shall provide for the amount or nature of the contribution of each contracting party to the development and operation of the district and may provide for the sharing of the costs of the operation of and improvements for the district. The contributions may be in any form to which the contracting parties agree and may include, but are not limited to, the provision of services, money, real or personal property, facilities, or equipment. The contract may provide for the contracting parties to share revenue from taxes levied on property by one or more of the contracting parties, if those revenues may lawfully be applied to that purpose under the legislation by which those taxes are levied. The contract shall specify and provide for new, expanded, or additional services, facilities, or improvements. The

contract may provide for expanded or additional capacity for or other enhancement of existing services, facilities, or improvements.

Audit steps related to the above would include:

- Obtaining evidence that the municipality and township is meeting its contractual “contribution” requirements in material respects.
 - If a government has fulfilled its contribution / obligations, retain audit documentation supporting this fact in the permanent file.
- Obtaining evidence that a municipality collecting and distributing JEDD income taxes pursuant to Ohio Rev. Sections 715.70(F)(5), 715.71(G), or 715.74(C)(2), did collect and distribute these taxes to the participating governments in accordance with the contract.
 - This step only applies to audits of a municipality responsible for collecting these taxes.
- Determine whether participating governments’ accounting systems adequately segregate restricted resources (if any) received and disbursed pursuant to the contract. (See guidance about establishing funds in the *Fund Requirements* section above.)
- Obtain evidence supporting whether the municipality or township disbursed restricted resources (if any) for purposes the contract authorizes in material respects.

JEDD Reporting and Disclosure

GAAP governments (e.g. cities) or OCBOA governments should follow GASB 14 reporting and disclosure requirements for JEDD in which they participate. For example, a JEDD contract may create a *joint venture* or *jointly-governed organization*. GAAP governments and their independent auditors should determine the proper application of GASB 14 for JEDD in which they participate.

Other governments should briefly disclose the following in their notes:

- The government’s participation in a JEDD.
- Significant services / facilities / improvements / enhancements, etc. provided under the JEDD contract.
- The government’s significant financial obligations (i.e. contributions, if any) under the JEDD.
- Disclose income taxes a government receives pursuant to a JEDD contract.
- Any other significant financial provisions of the contract.

your regional Auditor of State's office.

Questions and Comments

If you have any questions regarding this Bulletin or the financial reporting requirements, please contact ~~the AOS Accounting & Auditing Support Section at (800) 282-0370.~~

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Auditor of State

Also, often a municipality (or other government) is "merely" the fiscal agent for a legally-separate JEDD. In these cases, the fiscal agent should report the JEDD's cash activity in an agency / custodial fund. The JEDD should also report this activity in its own statements using the proper fund(s).