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From: Auditor of State's Center for Audit Excellence
To: All IPA Firms
Subject: Community School Management Company Footnote – OCS 2-5
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As a reminder, the community school edits related to House Bill (HB)2 in the 2016 Ohio Compliance Supplement (OCS) indicated the guidance was effective 2/1/16, however, AOS did not require implementation or audit testing until FY 2017 (unless a school was otherwise required to implement by their sponsor, ODE, etc.).

One of the HB2 items was described in the Ohio Compliance Supplement (OCS) 2-5 and dealt with the management company footnote. **Please be aware that beginning with FY 2017 audits, there are likely many community schools that did not have the management company footnote in prior years, but should beginning with FY 2017. Therefore, there are likely many related management companies that must comply with ORC 3314.024 beginning with FY 2017, but felt it did not apply to them in past years.**

To assist in understanding the changes related to OCS 2-5, consider the following information from the 2016, 2017 and 2018 versions of the OCS:

- 2016 section 2-5 – **The 20% requirement was changed to clarify that it is based on what the management company 'receives' rather than based on what the management company 'charges'.** As noted in the yellow highlight at the top, HB2 was not required to be implemented until the FY 2017 audit.
- 2017 section 2-5 – The yellow highlighted language at the top was removed (regarding delaying implementation until FY 2017); a link to the sample footnote added to the Auditor of State's website for the management companies was included; and a few other edits were made.
- 2018 section 2-5 – The guidance clarified in this section may be useful to review for ongoing 2017 community school audits. The law did not change from 2017 to 2018, however the testing/guidance in section 2-5 has been clarified. **Footnote 5 was added to explain that 'receipts' include ANY money that is given from the community school to the management company, or to a 3rd party vendor on behalf of the management company.** Clarification has been added to indicate there are three options: 1) AOS audit the management company 2) Management company contracts for an audit report or 3) AUP (and this would be if the management company does not have audited financial statements OR if the audited statements do not present combining or consolidating column's for each of its schools OR if the management company's auditor does not provide opinion-level assurance on the columns presenting each school).

In addition, OCS 2-5 states: material misstatement **or omission** of the community school financial statement footnote should be reported as GAGAS level, material noncompliance with Ohio Rev.

Code § 3314.024. However, as GAAP does not require this disclosure, the opinion should not be modified.

Questions can be directed to CommunitySchoolQuestions@ohioauditor.gov.