Community School Close-out Procedures

Planning Procedures

Audit Procedure: Planning Procedures – September 2022 updates are indicated by strike-out / double underline

For close-out audits, this program is used in addition to the *Community Schools-All* program.

- **Note** - If this school merged with another school, this program is not applicable (except for certain situations described in the *Community Schools-All Finalizing* program). To identify a merged school, see guidance in the *Community Schools - All, Merged School Procedures* program. This *Community Schools - Close-out* program was written for 'closed' schools, and certain guidance may need modified if using for the audit of a school that merged/dissolved after the fiscal year end.

1. When the Ohio Department of Education's (ODE) closure notice is received from the Auditor of State's (AOS) CFAE Community School Specialist indicating that the school closed, contact the Treasurer to discuss the audit period and the financial reporting framework [AOS Guidance 1]. If uncertain what audit period should be, based on guidance below, contact AOS regional Chief Auditor.
    a. Auditors should document in the Record of Work Done (below) the closure date on ODE's memo, Secretary of State's (SOS) website (if filed), and Board approval. If any of the dates differ auditors should evaluate the school's documented reasoning for the date used for their financial statement presentation. After review of the school's documentation, if there is concern which date should be used, consult with the AOS CFAE Community School Specialist at CommunitySchoolQuestions@ohioauditor.gov.
    b. The audit period cutoff date is normally the closing date (which is noted on their official closure notice from ODE, on their SOS filing (if filed), and in their Board minutes/resolution). If circumstances exist where the auditor believes the audit period should be extended beyond the closing date, contact the AOS CFAE Community School Specialist for approval. (Also see the related procedures in the *Finalizing Procedures*).
        i. Schools that close on 6/30 would have a 6/30 fiscal year end (FYE).
        ii. Schools that close mid-year would have the corresponding cutoff date (i.e. 9/30 closure date on ODE's memo, etc. = 9/30 FYE)
    c. **If the prior year audit is not significantly underway (this often happens in mid-year closures)**, discuss with your regional AOS Chief Auditor about the possibility of combining it with the close-out audit (similar to a 2 year small government audit). [AOS Guidance 2]
    d. For mid-year closures, be sure the client is aware of the following Hinkle System Frequently Asked Question, and notify the AOS Regional Chief Auditor as indicated:
        - Q: My entity officially closed/dissolved as of a date other than the normal period-end (e.g. a community school with as June 30th year-end that closed/dissolved as of September 30th.) How do I complete the entity's final Hinkle System filing?
        - A: As soon as your entity officially closes/dissolves, notify the Auditor of State's (AOS) office in accordance with Ohio Rev. Code § 117.10(E), as described on the AOS Notifications webpage. The applicable AOS region will request your entity's Hinkle System link (for the period which includes the closure date) to be e-mailed to your entity's contact on file with the AOS and made available via your entity's eServices account.

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- NOTE: The Hinkle System links are only generated for an entity's statutory/normal period-end; therefore, the link generated will be for the next normal year period-end. For example, if a community school with a normal June 30th period-end closes/dissolves as of September 30, 2021~~0~~, the Hinkle System link generated will be for the period-end of June 30, 2022~~1~~. Since this is a final filing, your entity should disregard the date reflected in the Hinkle System link (in the example, June 30, 2022~~1~~) and prepare financial statements/notes and any key data for the dates of operation during that period (in the example, July 1, 2021~~0~~ to September 30, 2021~~0~~).

2. Occasionally in close-out audits, the client has concerns with signing the engagement letter, because the school has limited or no funds remaining to pay the audit bill. Consider the following in this situation:
   - If the community schools initiated operations on or after February 1, 2016, Ohio Rev. Code § 3314.50 requires the school must have a bond, cash, or written guarantee in the amount of $50,000 to pay their audit bill if they close. See the Ohio Compliance Supplement section 2-13 & OPM O-28 for further information.
   - AU-C 210.09 --.10 requires financial statement auditors to establish a written understanding with auditees prior to commencing auditing services.

AOS Guidance:

1. Ohio Admin. Code § 117-2-03(B) requires community schools to file their annual financial reports on a GAAP basis.

2. However, note, that in order to combine the 2 audits into 1, the accounting basis would need to be the same. If it is not, while they could be performed simultaneously, they would need to be separate audits.

Record of Work Done:

1. Document:

Closure date per ODE closure memo (& cross-reference to memo)	
Closure date per Certificate from Secretary of State's (SOS) website (& cross-reference to certificate)	
Closure date per Board minutes/resolution (& cross-reference to such)	

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2. Cross-reference to AOS CFAE & regional Chief consultations, if consulted.
3. Document audit period:
4. If a mid-year closure, cross-reference to notification to AOS Regional Chief.

Conclusion:

Community School Close-out Procedures

Substantive Procedures

Audit Procedure: Substantive Procedures – September 2022

Foundation Payments / FTE Adjustments

1. Determine if the school received foundation payments for months after they were closed. [AOS Guidance 1 & 2]

2. Determine if the school *actually* received the amounts reported on the Foundation Settlement and the Final FTE adjustment reports. If the Ohio Department of Education (ODE) retained the payments due to the school closing, determine if the school recorded the activity on their financial statements. [AOS Guidance 2]

3. Inquire with the school to see if ODE sent the school a 'repayment letter' detailing any amounts due. Auditors can also check the AOS Master Community School Spreadsheet to see if AOS was cc'd on the correspondence. Contact the Auditor of State's (AOS) CFAE Community School Specialist at CommunitySchoolQuestions@ohioauditor.gov if the amount due to ODE is unclear and a current confirmation needs obtained.
    a. Inspect Foundation Settlement's/ledgers/bank statements subsequent to the repayment letter date to determine if payments have been made towards the amount due.

5. Inquire with those charged with governance if any settlement agreements were entered that impact the school. If such an agreement was entered, obtain a signed copy and evaluate for impact on financial statements and ODE's close-out procedures. [AOS Guidance 3]
    a. See guidance to consider when assessing these agreements in the *Compliance Procedures* section.

6. Determine if a Finding for Recovery (FFR) should be issued by AOS and if a liability was reported for money due to ODE. [AOS Guidance 4]

Activity Subsequent to Closure/Fiscal Year End

7. Determine if transactions and cash balance subsequent to fiscal year end were disclosed in a footnote, and test the details in this footnote. [AOS Guidance 8]
    a. The cutoff date for the footnote will be on a case-by-case basis, but should go as far as possible depending on the timeline of the audit.
    b. This step does not apply to merged schools.

8. If the school received casino tax revenue [AOS Guidance 5] after they were closed, determine eligibility based on Ohio Rev. Code § 5753.11 [AOS Guidance 6].
    a. If the school was still open on the Friday of the first full school week in October, then receiving casino tax revenue in January is appropriate. [AOS Guidance 7]
    b. If the school was still open on the Friday of the first full school week in May, then receiving casino tax revenue in August is appropriate. [AOS Guidance 7] The FTE Adjustments and other adjustments to FTE, have no impact on the casino tax revenue and would not result in a FFR being

issued by AOS against the school in favor of the Dept. of Taxation.

Debt

9. Scan the schools 5 year forecast as another source indicating possible debt to evaluate for proper reporting.

AOS Guidance:

1. In certain situations, schools have received foundation after they were closed (ie. June 30 closure, but the school received foundation for July or August). In most cases, if this occurred and was not corrected by ODE, the IPA firm should request the AOS region issue a FFR. If the management company, sponsor, etc. were paid on money received for periods the school was closed, this should also be considered for a FFR and included in true-up testing in the *All Community School's* audit program, *Substantive* procedures. Community School Foundation Reports are available at http://education.ohio.gov/Topics/Finance-and-Funding/School-Payment-Reports/State-Funding-For-Schools/Community-School-Funding .

2. Occasionally the foundation settlement or Final FTE Adjustment report may 'appear' that the community school received funds, but ODE actually did not remit those funds to the school (normally in cases where ODE knew the school was going to close and the school owed ODE money).

3. For example, ODE occasionally negotiates settlement agreements with certain sponsors regarding their schools which are closing (ie. traditional schools that sponsor community schools). Note - While the community school is not normally a party in these agreements, they often address disposition of the closing schools assets, liabilities, etc. and therefore are needed for the audit. Per the ODE Closing Procedures Guidance memo dated May 2018, procedures for school closures that are the result of settlement agreements may differ based on the provisions of the settlement.

4. Findings for Recovery will be issued by AOS in situations where a community school closes and still owes money to ODE due to over-funding (regardless of whether all FTE adjustments are complete or not). These FFR's would be against the School, in favor of ODE. However, if the school can demonstrate, during the course of the audit, that they have already made the repayment or reached a settlement with ODE, likely no FFR would be issued. The timing can be complicated on these because often the FTE adjustments are occurring at the same time the audit is being performed. The facts and circumstances of each schools situation need evaluated and, if necessary discussed with the AOS Regional Chief and / or the AOS CFAE Community School Specialist, to determine if a FFR needs issued by the AOS region.

5. See AOS Bulletin 2012-008 for more information on Casino Tax revenue.

6. Ohio Rev. Code § 5753.11 indicates:

   (A)(1) "Public school district" includes any community school established under Chapter 3314.
   (A)(2) **"Student population" means** the number of students residing in a county who are enrolled in a public school district in grades kindergarten through twelve and the total number of preschool children with disabilities on the following dates: (a) For the January

distribution, the Friday of the first full school week in October; (b) For the August distribution, the Friday of the first full school week in May.
(B) For the purpose of calculating **student population**, each public school district shall, twice annually, report to the department of education the students enrolled in the district on the days specified in division (A)(2) of this section. A student shall be considered to be enrolled in a public school district if the student is participating in education programs of the public school district and the public school district has not: (1) Received documentation from a parent terminating enrollment of the student; (2) Been provided documentation of a student's enrollment in another public or private school; or (3) Ceased to offer education to the student
(C) The department of education shall certify to the department of taxation the **student population** for each county and the student population for each public school district located in whole or in part in the county on or before the thirtieth (30th) day of December, for the January distribution and on or before the thirtieth (30th) day of July, for the August distribution..... The student population count certified by the department of education to the department of taxation is final and shall not be adjusted by future updates to the counts.

7. Ohio Rev. Code § 5753.11 requires ODE to certify the student population as defined in 5753.11(A)(2). If a community school closes after the date they certify the student population to ODE that has no impact on the next casino tax revenue distribution. To clarify – if a community school closes after they certify to ODE, but before ODE certifies to the Department of Taxation, ODE is not required to adjust that schools certification – it is still as of the date in 5753.11(A)(2). However, consult with the AOS CFAE Community School Specialist if the school received casino tax revenue in January, but was closed by the Friday of the first full school week in October; or if the school received casino tax revenue in August, but was closed by the Friday of the first full school week in May.

8. The subsequent transactions past the closing date may be presented in detail or in summary form in the footnote; and should be tested just as auditors would test any transaction (non-payroll/payroll/receipt). Depending on how many items there are, auditors may select a sample, or test 100%. The cash balance should be tested using the same procedures as in the cash program.

Record of Work Done:

1. Inspect bank statements and foundation settlement reports for the first 2 months after the school closed to determine if the school received foundation for those months.

2. Trace the net amount on the last foundation settlement report, and FTE Adjustment reports (if applicable) to the schools bank statement to determine if they *actually* received the payments. If not, determine if the activity was posted on the school's accounting records and financial statements.

3. Was a repayment letter sent to the school detailing amounts due to ODE? If so, cross-reference to letter.

4. If applicable, cross-reference to signed settlement agreement, evaluate, and document impact on financial statements and ODE close-out procedures based on guidance above.

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5. Determine if a Finding for Recovery (FFR) should be issued by AOS and liability reported for money due to ODE.
6. Cross-reference to the related footnote and testing of transactions and cash balance that occurred subsequent to fiscal year end.
7. If the school received casino tax revenue after their closing date, document if the school meets the criteria to receive these funds.
8. Evaluate the schools 5 year forecast for possible debt to be included as liabilities/footnote disclosure, and document conclusions.

Conclusion:

Community School Close-out Procedures

Compliance Procedures

Audit Procedure: Compliance Procedures – September 2022 updates are indicated by strike-out / double underline

ODE Close-out Procedures

Note: ODE updated their closing procedures & memo in July 2021, however, no community schools closed in FY21, and only 1 closed in FY22. While schools that closed in prior years had the option to finish their closing procedures using the new template, none did. Contact CFAE Community School Specialist if the school/sponsor used the July 2021 close-out procedures.

1. Document testing of Ohio Dept. of Education (ODE) close-out procedures. [AOS Guidance 2]
    a. ODE updated their close-out procedures and accompanying memo for 6/30/18 and subsequent close-out schools [AOS Guidance 1 & 3].
    b. Obtain most recent quarterly update of the school's close-out procedures from the sponsor, compare to the file on ODE's website, and utilize to assist in testing the procedures. [AOS Guidance 4]
        i. ODE implemented a new process effective 7/1/18 that the sponsor must document the status of each close-out step and upload to ODE's Epicenter on a quarterly basis.
        ii. While auditors cannot rely solely on the sponsors responses to each step, this should assist in knowing what steps the sponsor is saying have been completed, what action was taken, etc.
    c. Per the ODE Closing Procedures Guidance memo dated May 2018: [AOS Guidance 1]
        - The Closing Procedures are not applicable to school mergers. *(As a reminder - this would be schools ODE classifies as mergers.)*
        - Procedures for school closures that are the result of settlement agreements may differ based on the provisions of the settlement. If such a settlement agreement is involved, contact AOS CFAE Community School Specialist (CommunitySchoolQuestions@ohioauditor.gov) for guidance to consider when assessing it.

2. For any ODE close-out procedures pending completion for a practical reason, the client should disclose pending procedures in a footnote. See related information in *Financial Statement and Reporting Procedures* in this close-out audit program. [AOS Guidance 5]

3. For items not done correctly or the client failed to perform, evaluate if a citation should be issued. Be sure to consider if the step has a financial statement impact in determining the level of the comment.

Capital Assets (applicable to GAAP, OCBOA, or cash entities)

4. If the school had an operator/management company, determine if they complied with Ohio Rev. Code § 3314.0210, which requires that when an operator or management company purchases furniture, computers, software, equipment, or other personal property for use in the operation of a community school under this chapter with state funds that were paid to the operator or management company by the community school as payment for

services rendered, such property is property of that school and is not property of the operator or management company. When a community school permanently closes and ceases its operation as a community school, any property that was acquired by the operator or management company of the school in the manner described in this section shall be distributed in accordance with division (E) of section 3314.015 and section 3314.074 of the Revised Code. (Effective February 1, 2016)

AOS Guidance:

1. See accompanying memo at ODE Suspension-Closure-Memo May2018.

2. Auditors must give schools/sponsors reasonable time to perform the close-out procedures before testing. What is considered 'reasonable' can vary from school to school.

3. ODE posts their Suspension & Closure Procedures template to http://education.ohio.gov/Topics/Community-Schools/Guidance-Documents-Webinars-and-Presentations .

4. Sponsors are responsible to provide and execute a plan for an orderly conclusion of a community school's affairs when a community school is closed. Community school sponsors make sure a community school's governing authority takes all reasonable and required actions to fully address closing issues. If a school's governing authority is no longer able or willing to fulfill obligations with respect to orderly closure, the school's sponsor assumes responsibility for all closure activities.

5. Auditors should propose adjustments to the disclosures where necessary for these pending procedures, but the lack of disclosure would not result in a materially missing disclosure and therefore would not impact the opinion if not adjusted.

Record of Work Done:

1. Test ODE close-out procedures from ODE's website.
   a. Cross-reference to most recent sponsor quarterly update.
   b. Cross-reference to related closure settlement agreement, and test accordingly (if applicable).

2. Cross-reference to the footnote disclosure in the *Financial Statement and Reporting Procedures* section of this audit program, of ODE close-out procedures pending completion for documented practical reasons.

3. Determine if a noncompliance citation should be issued for any ODE close-out procedures not completed correctly or the client failed to perform. In most instances, this noncompliance does not significantly impact the financial statements and would be reported in the management letter.

Community School Close-out Procedures

4. If the school had a management company / operator, determine if any related assets purchased after February 1, 2016 were distributed in accordance with Ohio Rev. Code §§ 3314.015 (E) and 3314.074. Cross-reference to testing in the Ohio Compliance Supplement Chapter 2.

Conclusion:

Community School Close-out Procedures

Financial Statement and Reporting Procedures

Audit Procedure: Financial Statement Procedures – September 2022

GASB 69 (GASB Cod. Co10)
If a *closed* community school applied GASB Cod. Co10 - Combinations and Disposals of Operations (GASB 69), obtain the detailed written documentation for their reasoning for applying GASB Cod. Co10. See guidance in the *Community Schools - All, Merged School Procedures* program regarding the possibility of the Ohio Department of Education (ODE) classifying certain community schools as 'closed' while the auditor may classify as 'merged'. [AOS Guidance 1]

Footnote Testing

1. Note: The footnote disclosing transactions and cash balance subsequent to fiscal year end is tested in *Substantive Procedures* above.

2. Determine if the school included a footnote for any Ohio Dept. of Education (ODE) Closeout procedures that are pending completion. See further guidance in the *Compliance Procedures* above.
    a. This step does not apply to merged schools.

Reporting

3. Change the audit cover sheet to state 'Final Audit', unless it is determined that the school should be required to continue filing financial statements/notes after this normal close-out audit period. (See further information in the *Finalizing Procedures* program).

4. Consider if the addressee/address should be modified on the audit report and management letters. Often the schools board is no longer active, no one is at the former school building, and all that's left is the Treasurer and / or Sponsor. [See AU-C 700.A26 & AU-C 260.06]

    a. Entity name & county would still contain the school name and county it was located in.

    b. Consider adding another line with the sponsor's name (and indicate 'Sponsor' after it), and using the sponsors street address. The 'school building' address should not be used if it is no longer a valid address.

    c. If the Board has disbanded, 'To the Governing Board' line should include the schools name, rather than 'Governing Board'.

AOS Guidance:

1. For GASB Cod. Co10 (GASB 69) and other guidance on mergers, see the *Community Schools - All* procedures - *Merged School Procedures* section.

Record of Work Done:

Community School Close-out Procedures

1. If the client applied GASB Cod. Co10 to the *closed* community schools financial statements, cross-reference to client's documentation for applying such, and document your conclusions.

2. Cross-reference to the evaluation of the footnote disclosing ODE close-out procedures pending completion for practical reasons.

3. Cross-reference to the audit report cover sheet, indicating 'Final Audit' on it.

4. Document if addressee/address was modified on the report letters and management letter.

Conclusion:

Community School Close-out Procedures

Finalizing Procedures

Audit Procedure: Finalizing Procedures – September 2022 updates are indicated by strike-out / double underline

1. Going Concern Assessment - Include ~~an Emphasis of Matter/Other Matter (EOM/OM) paragraph~~ a going concern section in the opinion regarding the closure.
    a. Substantial doubt EOM/OM are included about the going concern assumption when the entity may cease operations. In the case of a close-out audit, the school has already closed. Therefore, the opinion should not include a 'substantial doubt going concern' EOM/OM.
    b. Avoid using language such as 'terminated operations' or 'ceased operations', as that is not clear if the school was in suspended or closed status.

2. Representation Letter Signatures - Often in close-out community school audits, only the Sponsor and sometimes the Treasurer are left. In these cases, evaluate AU-C 580.

3. Determine if the school should be required to continue filing financial statements/notes after their close-out audit period.
    a. Normally the financial statements of a close-out audit will cut off at the schools closing date. Depending on the schools circumstances, there could be rare situations where the school will need to file financial statements the following year(s) as well, and receive ongoing audit(s). This will be determined on a case by case basis depending on the outstanding closeout work as of the opinion date, the cash balance, and the status/resolution of obligations/liabilities. If there are potentially significant items unresolved and/or not yet performed, AOS may continue to require the school to file annually in the Hinkle System and be audited until the remaining activity is negligent. IPA's should present information to AOS regional Chief if continued filings should be considered. That determination will be up to the AOS regional Chief to assess, with AOS CFAE approval if continued filings are deemed necessary.

Record of Work Done:

1. Was the ~~Emphasis of Matter or Other Matter paragraph~~ going concern section described above included in the opinion?

2. Considering the guidance in the Audit Procedures above, were appropriate signatures obtained on the representation letter?

3. Describe assessment/determination of whether the school should be required to continue filing financial statements/notes after their close-out audit period. If subsequent filings/audits are deemed necessary, cross-reference to AOS regional Chief approval.

Conclusion:

Community School Close-out Procedures