

Title 5 - DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
Division 30 - Division of Financial and Administrative Services
Chapter 4 - General Administration

ORDER OF RULEMAKING

By the authority vested in the State Board of Education under sections 160.405, 161.092, 165.121, 167.201 and 178.430, RSMo, the board amends a rule as follows:

5 CSR 30-4.030 is amended.

A notice of proposed rulemaking containing the text of the proposed amendment was published in the *Missouri Register* on October 1, 2015 (40 MoReg 1277-1280). Those sections with changes are reprinted here. This proposed amendment becomes effective thirty (30) days after publication in the *Code of State Regulations*.

SUMMARY OF COMMENTS: The Department of Elementary and Secondary Education (department) received seven (7) comments on the proposed amendment.

COMMENT #1: Renda Armstrong, CPA, DSWA Certified Public Accountants, Teresa Lange, Bayless School District, and Kevin Supple, Francis Howell School District, indicated it would not be in the best interest of small school districts in the state of Missouri if they were required to report on the accrual basis of accounting. They expressed concern that as a result of the new Uniform Grant Guidance that went into effect on July 1, 2015, cash basis districts would lose their low risk auditee status under the provisions listed under 2 CFR 200.520, since the state law is silent as to the basis of accounting required for the school districts. They suggest a wording change that allows Missouri school districts to be allowed to report on a cash or modified cash basis of accounting.

RESPONSE AND EXPLANATION OF CHANGE: The department agrees with the comments in support of school districts maintaining their low risk status. Subsection (2)(A) will be revised to explicitly state Other Comprehensive Basis Of Accounting. The remaining sentences in subsection (2)(A) will be deleted.

COMMENT #2: Kathy Wood, CPA, Lindbergh School District, proposes that subsection (2)(A) be revised to state: *“The financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP); or Other Comprehensive Basis Of Accounting (OCBOA) such as cash, modified cash or modified accrual; or a basis of accounting required by state law.”*

RESPONSE AND EXPLANATION OF CHANGE: The department agrees with this proposal. Subsection (2)(A) will be revised to explicitly state Other Comprehensive Basis Of Accounting. The remaining sentences in subsection (2)(A) will be deleted.

COMMENT #3: Jeff Orr, Fort Zumwalt School District, understands this amendment is meant to prevent districts from losing their low risk auditee status based on changes by the new Uniform Grant Guidance standards. However, Missouri does not currently have a law that specifies a basis of accounting for financial statement reporting purposes. Without such a law, Mr. Orr is concerned the interpretation of the proposed changes would force districts to prepare their financial statements in accordance with Generally Accepted Accounting Principles (GAAP) (full accrual). This would be a huge burden and cost to school districts across the state. About ninety-eight percent (98%) of districts currently report on a cash basis. The majority are relatively small and do not have staff with adequate skills to prepare full accrual (GAAP) financials. In addition, GAAP financial statements require extensive disclosures that would further increase accounting fees, audit fees, and require actuarial analysis to prepare. To avoid this issue and hopefully satisfy the new guidance concerning low risk auditee status, Mr. Orr recommended the following changes to the proposed rule: (2)(A) *“The financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP); or Other Comprehensive Basis Of Accounting (OCBOA) such as cash, modified cash or modified accrual; or a basis of accounting required by state law.”*

RESPONSE AND EXPLANATION OF CHANGE: The department agrees with the comments in support of school districts maintaining their low risk status. Subsection (2)(A) will be revised to explicitly state Other Comprehensive Basis Of Accounting. The remaining sentences in subsection (2)(A) will be deleted.

COMMENT #4: Denise Pierce, Jefferson City School District, and Roger Kurtz, Missouri Association of School Administrators, are concerned the wording of subsection (2)(A) indicates that, due to the absence of a state law, all Missouri school district must prepare their financial statements on the GAAP (accrual) basis, which would increase audit costs and personnel costs to hire additional staff, for most of the districts in the state. Ms. Pierce also pointed out that Section 222 of Statement of Federal Financial Accounting Concepts (SFFAC) 1 on page 51 of the Federal Accounting Standards Advisory Board (FASAB) handbook states: “The FASAB has no intent to recommend standards for general purpose external financial reporting by nonfederal entities. The FASAB’s mission is to consider and recommend principles for the federal government.”

RESPONSE AND EXPLANATION OF CHANGE: With the changes to the rule, the department is clarifying the law to explicitly state other comprehensive basis of accounting is a permissible basis of accounting to use in preparing the financial statements. Subsection (2)(A) will be revised to explicitly state Other Comprehensive Basis Of Accounting. The remaining sentences in subsection (2)(A) will be deleted, which includes the reference to the FASAB handbook.

5 CSR 30-4.030 Audit Policy and Requirements

(2) Audits of schools are primarily intended to express an auditor’s opinion on the fairness of presentation of the financial statements. Audits also provide an independent review of financial operations, systems of internal control, and compliance with relevant state and federal laws and regulations.

(A) The financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) (accrual basis); or Other Comprehensive Basis Of Accounting (OCBOA) such as cash, modified cash or modified accrual; or a basis of accounting required by state law.