



Q Our auditors tell us that new accounting standards will change our annual audit reports. Can you help us understand the changes that will occur when we implement GASB Statement 34?

In 1999, the Governmental Accounting Standards Board (GASB), which establishes Generally Accepted Accounting Principles for state and local governments, issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis." For many governments, implementation of GASB 34 is now occurring. It represents a dramatic shift in the way state and local governments present financial information to the public. Some of the changes required by the statement are:

- Reporting on the overall state of the government's financial statements, not just its individual funds. This new reporting is called "government-wide financial statements."
- Required Management Discussion and Analysis—an introductory narrative section analyzing the township's financial performance.
- Information about the government's infrastructure assets (bridges, roads, storm sewers), which under previous reporting models were not accounted for on any fund or account group's balance sheet.

Q What are government-wide financial statements?

Government-wide financial statements group a township's activities by function (i.e., governmental activities, business activities and component units), while the prior reporting model combined activities by fund type

(i.e., general, special revenue, debt service, capital projects and proprietary). Also, the prior reporting model contained financial information about the township's fiduciary funds, and presented long-lived assets belonging to governmental activity and the long-term debt of a governmental activity as account groups, rather than integrating them into combined statements.

However, the biggest change is not how the information is presented, but the accounting methods used. In the old model, financial information is brought forward to the combined reporting level, retaining the accounting methods used in the individual funds statements. Governmental funds (for example, general fund) used the modified accrual method, while proprietary fund types (and certain non-expendable trusts) used the full accrual method. The new model requires full accrual accounting regardless of the fund type.

Because of the radical nature of these changes, GASB has set a transitional phase to implementation based on the government's total revenues in the first fiscal year ending after June 15, 1999:

- \$100 million or more Apply to periods beginning after June 15, 2001
- \$10 million or more but less than \$100 million Apply to periods beginning after June 15, 2002
- \$10 million or less Apply to periods beginning after June 15, 2003

Additional key information:

- The state treasurer has developed implementation guidelines, especially for smaller units. These guides are available at www.michigan.gov/treasury.

- Infrastructure reporting (cost of streets, storm drains, bridges, etc.) has different implementation dates. For new assets acquired or built after the effective date above, the implementation date is immediate. Infrastructure reporting for assets already

by David Williamson, CPA
Post, Smythe, Lutz and Ziel, LLP,
Plymouth

built or expensed has different implementation dates:

- Revenues of \$10 million or more: For the first fiscal year ending after June 15, 1999, four years after the effective date for basic financial provisions.
- Revenues of less than \$10 million: May elect to report infrastructure assets prospectively only.

NOTE: GASB recognized that the modified accrual method is designed to show restrictions on the planned use of resources, or to measure revenues and expenditures arising from certain activities, in order to maintain legal compliance. The new statement anticipates that townships and other governmental units will continue to use the modified accrual method in their governmental funds, while converting the records to full accrual for purpose of the government-wide financial statements.

Q If we are late getting started, what can we do to get ready?

We suggest that you meet with your auditors, and develop an "implementation team," which could be used to identify the challenges facing your township, and design a course of action necessary to allow audits to be filed on time, minimize costs, and avoid the many negative consequences of late filing. The team should review:

- fixed asset capitalization policy and depreciation methods;
- infrastructure strategy;
- software solutions;
- budget impact, and
- who and how the management discussion and analysis will be developed. ■

Financial Forum is a monthly discussion of current township finance, accounting and budgeting practices. The information provided should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.

POST, SMYTHE, LUTZ AND ZIEL, LLP *Certified Public Accountants*

Governmental accounting, auditing
and financial consulting services

1034 W. Ann Arbor Trail
Plymouth, MI 48170-1502
(734) 453-8770 ❖ Fax: (734) 453-0312