



**Q** We understand that the new GASB 34 reporting standards will impact the audit process in our next budget year. Do these mandated changes require any bookkeeping changes?

No, the Governmental Accounting Standards Board (GASB) recognized that governments need to maintain the books and records on the basis of accounting which best measures adherence to budgets, and to demonstrate legal compliance with laws and regulations. All townships use the modified accrual, or cash receipts and disbursements, method of accounting to accomplish these goals for their governmental funds, while proprietary or business-type operations generally use the full accrual method.

**Q** What do the new reporting standards require?

GASB Statement 34 sets the following elements for annual reporting, required for all governmental units, effective at their phase-in date:

- Management discussion and analysis—an introductory narrative section analyzing the township's financial performance.

#### Basic Financial Statements

- Government-wide financial statements—governmental and business activities; accrual basis of accounting including infrastructure and other fixed assets, and outstanding debt
- Fund financial statements—governmental, proprietary and fiduciary funds, with emphasis on major funds

- Notes to the financial statements

#### Required Supplemental Information

- Budgetary comparison schedules—separate schedule for the general fund and each major special revenue fund

- Non-major fund statements
- Other information (pensions, etc.)

Although the Michigan Department of Treasury strongly recommends full implementation of GASB 34, it will not require local units to prepare the following statements:

- Management discussion and analysis
- Government-wide financial statements
- Infrastructure reporting

However, under most circumstances, auditors will be unable to provide unqualified audit opinions on any statements prepared that omit the items not required by the state.

**Q** What are government-wide financial statements?

The government-wide financial statements are condensed financial presentations created by GASB, and are an attempt to measure a government's financial position, and changes in financial position on a basis similar to commercial enterprises. These government-wide statements are prepared using the modified accrual (or cash basis) information generated from the audited financial information of each organization's governmental funds (i.e., general, special revenue, debt service, capital projects and certain trust funds), and the accrual information prepared from enterprise or business-type funds. This information is converted to full accrual using worksheets or other means.

Some of the more *common* conversion adjustments are:

#### *Balance sheets of governmental funds*

Add: fixed assets at cost

Subtract: accumulated adjustments to the cost value made by calculation of the annual amounts of accounting depreciation. The accounting depreciation is an attempt to apportion the cost of tangible real and personal property owned by the township, over the life of the asset.

Subtract: long-term debt outstanding

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After these and other adjustments are made, the township's activities are presented by aggregating the assets, liabilities and net assets—i.e., equity—by their service activity. Governmental and business activity totals are presented in the statement of net assets.

#### *Statement of activities*

This is GASB's attempt to present condensed financial information of a government's revenues and expenditures on a full accrual basis, classified into significant categories by activity type (governmental and business). The more *common* adjustments to modified accrual or cash basis expenditures are:

Add: depreciation expense—the annual allocation of each asset's cost must be mapped to the specific expense category (i.e., general government, public safety, etc.)

Subtract: capital outlay treated as expenditures in governmental funds

Subtract: principal repayments on long-term debt treated as expenditures in governmental funds

Add or subtract: increases or (decreases) to accumulated sick and vacation pay owed to employees, or other compensated absence vested at the end of the fiscal year, not paid, or accrued in governmental funds.

After these and other adjustments are made, the revenues and expenses of each activity are calculated, and the net revenues are totaled and added to the general revenues (e.g. property taxes, state revenue sharing). The increase or decrease in net assets is presented in the statement of net assets, showing totals by governmental and business-type activities. ■

*Information provided in Financial Forum should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.*

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