



Q We are concerned about the cost and level of effort it will take to comply with GASB 34, the new financial reporting model. Can we opt out by adopting a board resolution?

No. While the Michigan Department of Treasury doesn't require full implementation of GASB Statement 34, it is likely that your auditors will be unable to issue an unqualified opinion on the township's financial statements unless the township uses the new reporting model. GASB 34 creates "basic financial statements," which consist of:

- Government-wide financial statements;
- Fund financial statements;
- Notes to the financial statements; and
- Required supplementary information, including management discussion and analysis.

For a detailed discussion about the specifics of GASB implementation, see "Financial Forum" in the January-February 2004 *Michigan Township News*.

Q We are a smaller township and use the modified accrual basis of accounting. The GASB 34-required fixed asset accounting seems overwhelming. How do we start?

You should start as soon as possible, since this information will be necessary to complete your next or current audit. If you are a phase III government (assets less than \$10 million), the conversion to the GASB 34 format is for years beginning after June 15, 2003.

Begin by meeting with the township's auditing firm to get guidance on developing a fixed asset policy. This policy should:

- Identify if the township owns any general infrastructure assets, such as roads, drains, etc. This does not include water and sewer-type assets if they are in an enterprise fund. If this is an issue, the township has the option to elect the "prospective" method, which means that these assets will be considered only if acquired after June 15, 1999—the GASB 34 implementation date. Most small townships that own such assets, which were not financed with debt, will likely choose the prospective method. This decision should be documented in the township board minutes.

- Develop a threshold for fixed asset capitalization. Prior to GASB 34, most governments did not track their general fixed assets, and now are required to do so. Each township should review and adopt a policy setting minimum or floor values to each type of assets. The purpose of this process is to stratify efforts on the most costly and most sensitive assets. For example, high minimums could be placed on non-sensitive assets such as infrastructure and building improvements, while lower thresholds could be placed on more sensitive assets, such as computers and vehicles.

- Acquire or use software designed to accomplish fixed asset reporting. Such software works much better than spreadsheets, and can have other features useful for the township, such as the ability to scan pictures of the asset, tag number and warranty information.

- Develop a policy identifying useful lives to depreciate the various assets, and depreciation methods to use.

An auditing firm's participation is helpful in this process, as they need to determine if the township's capitalization policy is reasonable, and if the depreciation methods and lives are acceptable. The auditors will express an opinion on the financial statements.

After the township develops this policy, you can perform the required research to document the costs of the assets within the scope of your

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fixed asset policy. The auditing firm can help with the depreciation calculations based on documentation of costs and board-approved fixed asset policies, but they cannot act without your assistance in the items identified above.

Q How many years back is it necessary to go in our asset research?

From a practical aspect, you should identify major purchases/acquisitions or property, equipment and buildings by taking a physical inventory of the major township assets, and determining the specific assets to identify and document costs. This review should be stratified by looking at major costs—buildings, park equipment, park land, fire trucks, computer and telephone systems—that are not likely to be fully depreciated. For example, if the useful life of furniture and fixtures is 10 years, and you have a conference table more than 20 years old, you would not be as interested in documenting these costs as the cost of newer assets.

The "look back" to document the cost of the major items could be documented by reviewing prior audited financial statements—looking at capital outlay expenditures, or changes to general fixed assets—and going back to original invoices or other documentation. You should create a file containing supporting documents used in your efforts, allowing auditors to minimize their time, and your costs. ■

"Financial Forum" author David Williamson will hit the road this summer for the MTA workshop Smart Solutions: Basic Accounting, Financial Software and GASB 34. Turn to page 8 for more information. Registration brochures were mailed to all clerks and treasurers in May.

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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