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Ex Officio

October 26, 2000

Dear School District Business Manager:

This correspondence is designed to communicate information related to Michigan Department of Education's guidance to public schools implementing GASB-34 on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. In order to be in compliance with GAAP, school districts will be required to implement GASB-34. Statement 34 establishes new requirements for the annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

The Statement will be phased in over the course of three years depending upon a local unit of government's 1998-99 total revenues (excluding other financing sources). The first phase governments, those with \$100 million or more in total revenues, will be implementing for the fiscal year ending 06/30/02; phase two governments, those with total revenues between \$10 million and \$100 million, will be implementing for the fiscal year ending 06/30/03; and phase three governments, those with less than \$10 million in total revenues, will be implementing for the fiscal year ending 06/30/04.

One of the major changes GASB-34 requires is that government-wide financial statements will be prepared using *full accrual* accounting. This change will require districts to place a value on all capital assets, calculate depreciation, record offsetting long-term debt, and report information regarding the net value of assets on the government-wide financial statements.

Another major change will be the addition of a Management's Discussion and Analysis (MD&A). The MD&A will provide an analysis of the government's overall financial position and results of the previous year's operations to assist the users of financial statements to assess whether the government's finances have improved or deteriorated. The analysis will explain significant variations in fund based financial results and budgetary information, and will describe capital asset and long-term debt activity during the year. The MD&A will conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect upon the government's future financial position and operations.

A subcommittee of the Michigan School Accounting Referent Group has been working diligently for over a year to develop implementation guidance that will enable public school districts to effectively transition into the new reporting model. The MDE guidance is due to be released later this fall. The Michigan School Business Officials' organization will be providing training sessions related to the Statement as soon as the initial supplemental guidance is available. The information will be available on the MDE website at www.mde.state.mi.us under Programs and Services, State Aid and School Finance, GASB-34 Guidance. The plan is to update the guidance as new information becomes available.

The referent group has suggested that the State Aid and School Finance Office respond pro-actively and disseminate GASB-34 information related to MDE decisions as they are made. This is the first correspondence distributed by our office related to GASB-34. Decisions made to date are:

1. MDE will require financial statements received from public school districts to follow GASB-34 requirements.
2. Our second decision relates to a frequently asked question, “Will MDE look at the government-wide statement when determining a deficit fund balance as prohibited in the State School Aid Act, Section 102(1)?” No, our office has been given the responsibility for monitoring deficit fund balances in Michigan public school districts and we have decided to continue using fund level, modified accrual, reporting information to determine the deficit condition of public school districts.
3. Our current perspective is that all Form B financial reporting will continue to be at the fund, function, and object level using the modified accrual basis of accounting. This will be the case until the federal government changes its reporting structure for collecting financial information from the states.
4. The budget adoption process for General and School Service funds will not change with the adoption of GASB-34.

We will continue to disseminate information related to GASB-34 as it becomes available. If you have questions related to MDE’s stance on GASB-34, you may contact Glenda Rader at (517) 335-0524.

Sincerely,

Elaine Madigan Mills, Director
Office of State Aid and School Finance

cc: Glenda Rader