

GASB 34 COMPLIANCE GUIDE

SERIES CONCLUSION: FINANCIAL REPORTING, PART 3

REQUIRED SUPPLEMENTARY INFORMATION

GASB standards require certain additional information to enhance and clarify your financial statements. While your note disclosures (discussed last month) are comparable to literary footnotes, **Required Supplementary Information (RSI)** supplements financial data by providing greater detail as well as historical perspective. **Management's Discussion and Analysis (MD&A)** is an important piece of your RSI and is presented before your financial statements, while other RSI comes after your notes which are preceded by your financial statements. RSI includes four items: MD&A; budgetary comparisons; pension information (only applicable to governments with their own pension funds); and modified approach infrastructure information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A gives readers both a short-term and long-term analysis of the primary government's activities in a narrative form. More user-friendly to the layperson than financial statements, it provides an analysis of the results of your current-year activity and compares it with the prior year. Visual aids such as charts or graphs are encouraged, and the analysis must be based on current factual information.

Interestingly enough, the Securities Exchange Commission (SEC) has the same MD&A requirement for the financials of publicly-traded companies. It is important that users of financial statements who are not accountants are able to understand the results of a company's or government's activities in order to make informed decisions about investing, in the case of a company, or voting for a budget in the case of a local government.

There are certain minimum requirements for the MD&A. Bill Hall, Finance Director of the Town of Hartford, put together the first MD&A for a Vermont town, and we use his format here to illustrate these requirements. (Editor's Note: You may find the Hartford MD&A in PDF format on the VLCT web site, in the *VLCT News* section.)

Bill introduces his analysis with a section called **Financial Highlights**, which is not required but is an effective preface to the overall discussion. In that paragraph, he bullets a summary of the bottom line, including net assets from his government-wide financial analysis and fund balances for his governmental funds obtained from the fund statement's analysis. There is also a bullet outlining the general fund results.

GASB 34 requires the following information in the MD&A:

▪ **Overview of Financial Statements** – (See last month's article for a description of the types of financial statements.) This is a brief overview of the two types of basic financials, and a discussion of their relationship to each other. There should also be an explanation of the differences in the type of information they provide the reader. This section acquaints the reader with the basic concept of government financial reporting by explaining what sort of information they provide and how the government-wide financials, the fund financials, the notes and the required supplementary information all tie in to give a complete picture of the municipality's financial condition. The Town of Hartford supplements this overview by including two short paragraphs explaining the notes to the financials as well as the RSI.

▪ **Government-wide Financial Analysis** – This analysis is in two parts. First, a condensed financial statement from the government-wide statements comparing current to prior should be presented. This gives the reader a summary financial report that is the basis for the next part of this section: analysis of the overall financial position. You want to show whether it has improved or deteriorated and give reasons for any significant changes in both governmental and business-type activities. The condensed financial statement should include the following categories:

1. Total assets, capital and other.
2. Total liabilities, long-term and other.
3. Total net assets, invested in capital net of related debt, restricted and unrestricted.
4. Program revenues and general revenues both by major source, as well as total revenues.

5. Program expenses by function and total expenses.
6. Excess/(Deficiency) before contributions, special and extraordinary items, and transfers.
7. Contributions, special and extraordinary items, and transfers.
8. Changes in net asset and ending net assets.

▪ **Financial Analysis of Government's Funds** – This is an analysis of fund balances for all of your governmental funds, and the net assets for your business type funds, with an explanation of any significant changes. This explanation must include a description of any commitments or restrictions that may affect the future use of these balances, an important piece of information for voters making decisions about the next budget.

▪ **General Fund Budgetary Highlights** – This is probably familiar to many municipalities that already provide budget analyses. It is simply an analysis of the variances between your original and final budget (assuming there were adjustments made during the course of the fiscal year), as well as between your final budget and actual revenues and expenditures for general fund only.

▪ **Capital Assets and Debt Administration** – This section provides an explanation of all significant capital assets and long-term debt activity. If you use the modified approach to report your infrastructure, you must include a discussion of the assessed condition changes, a comparison of current assessment to established condition level, and an explanation of any variances in the amount you estimated you would need with the actual expenses to preserve and maintain the assets.

▪ **Economic Factors and Next Year's Budgets and Rates** – This is a description of any known facts, decisions or conditions as of the date of the auditor's report that are expected to significantly impact the government's financial condition or the results of operations. This includes economic factors such as grand list increases or inflation that affects benefits and other expenses. The Town of Hartford's description was tied directly to its proposed budget, indicating that all of these factors were addressed in the preparation of the new budget.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules should show the original budget compared to the final budget as well as the final budget compared to actuals. Unlike the General Fund Budgetary Highlights discussed above, this includes all governmental funds and is detailed according to the manner in which the town budget is normally prepared. If the budget is not constructed according to GAAP (generally accepted accounting principles), a reconciliation of the schedule should be presented, showing the adjustments necessary to bring it into compliance. Expenses that are over what was budgeted should be explained in a note following the schedule. This schedule may also be reported with the fund financial statements after the statement of revenues, expenditures and changes in fund balances.

Modified Approach Infrastructure Information schedules include:

- A schedule showing the assessed conditions of the infrastructure for the latest three years including the dates of assessment.
- A schedule showing the estimated annual amount calculated at the beginning of the fiscal year for preservation/maintenance of the infrastructure compared to the actual amounts spent. Notes following these schedules should describe the basis for condition measurement as well as the scale used for assessment, the condition level you intend to maintain, and any factors contributing to trends seen in the assessed conditions in your schedule.

- Michael Gilbar, Director, VLCT Administrative Services

GUIDE TO THE GASB GUIDE

Part 1, Overview, June 2002 *VLCT News*

Part 2, Tracking and Reporting Capital Assets, July 2002 *VLCT News*

Part 3, Tracking and Reporting Infrastructure, August 2002 *VLCT News*

Part 4, Using the Modified Approach to Tracking and Reporting Infrastructure, September 2002
VLCT News Part 5, Financial Reports, 1&2, February and March 2003 *VLCT News* Part 6,
Financial Reports, 3, April 2003 *VLCT News*