



TOWN OF ELIZABETH

PATRICK G. DAVIDSON, TOWN ADMINISTRATOR

TO: Honorable Mayor, Mayor Pro Tem, and Board of Trustees
FROM: Patrick Davidson, Town Administrator
DATED: April 12, 2024
SUBJECT: Audit Reference – GASB Statement No. 34

BACKGROUND

The Governmental Accounting Standards Board, commonly referred to as “GASB”, establishes accounting and financial reporting standards for state and local governments that follow Generally Accepted Accounting Principles (GAAP). In essence, when the Town’s auditors are reviewing the Town’s financial statements, they are relying on the GAAP standards established by GASB.

In establishing its standards, GASB attempts to balance the intricacies of accounting principles with broader policy conditions. As such, in some instances GASB presents requirements which are “required” but not “mandatory” for purposes of the underlying accuracy of the financial statements and the audit. An example of this is found in GASB Statement No. 34 regarding a *Management’s Discussion and Analysis*.¹ While the audit itself requires governments to present financial statements and account information regarding funds, Statement No. 34 deals more with items such as a government’s financial performance, investments, policies, and anticipated changes for the year. As such, it often results in policy analysis being contained within the audit, which is outside of true financial considerations.

Because GASB’s accounting and financial reporting standards are applicable to state and local governments, including entities such as cities, towns, libraries, cemeteries, airports, harbor authorities, toll highways, and related government activities, GASB provides no template or set standards as to what is to be included or excluded from the *Analysis*. This is also why the “required” analysis is not reviewed by the auditors and is not subjected to “mandatory” inclusion for the acceptance of the audit.

ANALYSIS

The Town of Elizabeth has not had a *Manager’s Discussion and Analysis* included in the audit since calendar year 2018. Due to the constant turn-over in Administrators in years 2019, 2020, and 2021 no *Analysis* was provided in those audits. For calendar years 2022 and 2023, a majority of the Board did not seek its inclusion within those audits, determining that it was unnecessary.

Currently, the auditors are preparing its Independent Auditor’s Report with the understanding that a *Manager’s Discussion and Analysis* will not be included in the final report.

¹ For those more accustomed to corporate accounting, it is akin to the “Management Discussion and Analysis Letter” prepared during quarterly and annual reports, and specifically tied to both qualitative and quantitative analysis of corporate and stock performance.

STAFF RECOMMENDATION

Staff recommends that the Manager's Discussion and Analysis not be included in the upcoming audit report. Based on the size of the Town of Elizabeth, the size of its budget, and the limited number of public projects, it is unnecessary.

DIRECTION

In the event the Board would like to see this included in the upcoming audit presentation, it will be necessary to receive such direction as soon as possible. Reference to this Memorandum will be made during both April 23, 2024, Staff Report as well as presented with the Audit Packet.