

Statement No. 34 of the  
Governmental Accounting  
Standards Board

**Basic Financial Statements—  
and Management’s Discussion  
and Analysis—for State and  
Local Governments**

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**Governmental Accounting Standards Board**  
of the Financial Accounting Foundation  
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## **Management's Discussion and Analysis (MD&A)**

8. The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI). MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known<sup>6</sup> facts, decisions, or conditions. The financial managers of governments are knowledgeable about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities.<sup>7</sup>

9. MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

10. MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of its component units. Determining whether to discuss matters related to a component unit is a matter of professional judgment and should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. When appropriate, the reporting entity's MD&A should refer readers to the component unit's separately issued financial statements.

11. MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. At a minimum, MD&A should include:

- a. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist

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<sup>6</sup>For purposes of MD&A, *currently known facts* are information that management is aware of as of the date of the auditor's report.

<sup>7</sup>If a letter of transmittal is presented in the introductory section of a comprehensive annual financial report (CAFR), governments are encouraged not to duplicate information contained in MD&A.

readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.

- b. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:
  - (1) Total assets, distinguishing between capital and other assets
  - (2) Total liabilities, distinguishing between long-term liabilities and other liabilities
  - (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
  - (4) Program revenues, by major source
  - (5) General revenues, by major source
  - (6) Total revenues
  - (7) Program expenses, at a minimum by function
  - (8) Total expenses
  - (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
  - (10) Contributions
  - (11) Special and extraordinary items
  - (12) Transfers
  - (13) Change in net assets
  - (14) Ending net assets
- c. An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include *reasons* for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year should be discussed.
- d. An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

- e. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.
- f. A description of significant capital asset and long-term debt activity<sup>8</sup> during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.
- g. A discussion by governments that use the modified approach (paragraphs 23–25) to report some or all of their infrastructure assets including:
  - (1) Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments
  - (2) How the current assessed condition compares with the condition level the government has established
  - (3) Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.
- h. A description of currently known facts,<sup>9</sup> decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

### **Government-wide Financial Statements**

12. The government-wide financial statements consist of a statement of net assets and a statement of activities. Those statements should:

- a. Report information about the overall government without displaying individual funds or fund types
- b. Exclude information about fiduciary activities, including component units that are fiduciary in nature (such as certain public employee retirement systems)
- c. Distinguish between the primary government and its discretely presented component units
- d. Distinguish between governmental activities and business-type activities of the primary government

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<sup>8</sup>Paragraphs 116 through 120 require certain disclosures about capital assets and long-term debt. It is sufficient for purposes of this discussion in MD&A to summarize that information and refer to it for additional details.

<sup>9</sup>See footnote 6.

