

Management's Discussion and Analysis (MD&A)

The basic financial statements should be preceded by MD&A, which is required supplementary information. This section is intended to provide a narrative introduction and overview that users need to interpret the basic financial statements. MD&A should also provide an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, or conditions.

MD&A should also 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.

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.

MD&A requirements are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to **avoid "boilerplate" discussion**. The information presented should be confined only to the topics discussed in a. through e. below:

- a. A brief discussion of the basic financial statements.
- b. Condensed financial information comparing the current year to the prior year. At a minimum, institutions should present the information needed to support their analysis of financial position and results of operations required in c. below, including the following elements, if relevant:
 - Total assets, distinguishing between capital and other assets
 - Total deferred outflows of resources
 - Total liabilities, distinguishing between long-term liabilities and other liabilities
 - Total deferred inflows of resources
 - Total net position, distinguishing among the net invested in capital assets, restricted amounts, and unrestricted amounts.
 - Operating revenues, by major source
 - Nonoperating revenues, by major source
 - Total revenues
 - Operating expenses
 - Nonoperating expenses
 - Capital contributions
 - Contributions to term and permanent endowments
 - Special and extraordinary items
 - Change in net position
 - Ending net position

Management's Discussion and Analysis (cont.)

- c. An analysis of the institution'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 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. A description of significant capital asset and long-term debt activity 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.
- e. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position). Examples that may be relevant include approved changes in tuition and fees, enrollment changes, budget changes, adjudication of a significant lawsuit, a flood that caused significant damage to an institution's infrastructure, and decisions to eliminate current programs or start new ones. The items discussed should be specific to your own institution. For the purposes of MD&A, "currently known" is defined as information that management is aware of as of the date of the auditor's report. The key word in this requirement is "known" – that is, this discussion should be based on events or decisions that have already occurred, or have been enacted, adopted, agreed upon, or contracted. Institutions should not discuss in MD&A the possible effect of events that might happen (Note: such matters could be discussed in the letter of transmittal).

(Note: Information that is provided voluntarily cannot be described as required. Therefore, because MD&A constitute required supplementary information, an institution may not address additional topics not found on this list as part of MD&A. The letter of transmittal provides an appropriate place for addressing topics not listed above.)

Sources:

GASBS 34, ¶11, as amended by GASBS 63, ¶8
GASBS 37, ¶4 and ¶5
GASBS 63, ¶7 and ¶8
GASB Comprehensive Implementation Guide