

CALIFORNIA STATE UNIVERSITY

GUIDE TO PREPARATION OF MANAGEMENT'S DISCUSSION AND ANALYSIS



For the Fiscal Year Ending June 2004

OVERVIEW

Management's Discussion and Analysis (MD&A) is included in the campus' basic financial statements. The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI), for all CSU financial statements. Analytical in nature, MD&A is prepared using management's knowledge and insight and is designed to offer the reader a better opportunity to understand the financial activities of the campus. There are minimum and maximum requirements for MD&A but they are general rather than specific, in order to encourage financial managers to focus on the fiscal policies and financial activities that are most relevant to the overall financial performance of the campus.. MD&A provides financial managers with the opportunity to present both a short-term and long-term analysis of the campus' activities.

It is the responsibility (and challenge) of the preparers of the financial statements to consult with and involve the appropriate knowledgeable campus personnel in order to identify key decisions, transactions, events, and conditions that are reflected in the financial statements. These elements are then woven into an objective and easily readable analysis as MD&A that precedes the basic financial statements. .

The following sections provide general guidance for preparation of MD&A and are as follows:

- Preparation of MD&A
 - Comprehensive Variance Analysis
 - Preparation Process
 - Review Process
- Completion of MD&A Checklist
- Excerpts from Relevant GASB Pronouncements

Chapter 12 contains example proforma one-year and comparative campus financial statements, including example MD&As. Additionally, Appendix 2 of this Chapter contains copies of the June 30, 2003 MD&As for each campus.



PREPARATION OF MD&A

Comprehensive Variance Analysis

The starting point for preparation of MD&A is a comprehensive variance analysis, which compares changes between current year and prior year activities and balances. For the most part, the comprehensive variance analysis should have already been performed by the campus 1) in order to gain comfort with the reasonableness of the legal basis and GAAP basis amounts and 2) as a PBC request item for the audit.

In order to facilitate the identification of significant changes and determining the *reasons* for such changes, the comprehensive variance analysis should contain the following:

1. Statement of Net Assets:
 - a. Current year vs. prior year balances – dollar and percent changes
 - b. Balances for the current year and two preceding years – comparison of balances as a percentage of total assets (for assets) and as a percentage of total net assets (for liabilities and net assets) for each year.
2. Statement of Revenues, Expenses, and Changes in Net Assets
 - a. Current year vs. prior year balances – dollar and percent changes
 - b. Current year vs. prior year balances – dollar and percent changes for expenses by natural classification
 - c. Balances for the current year and two preceding years – comparison as follows:
 - Components of revenues and expenses by function as a percentage of student and tuition and fees, net of scholarship allowances, for each year
 - Components of revenues as a percentage of total revenues for each year
 - Components of expenses by natural classification as a percentage of total expenses for each year
 - Components of expenses by function as a percentage of total expenses for each year.

Preparation Process

The preparation of MD&A requires significant coordination among campus personnel as preparers must perform an analysis to identify and disclose the reasons for changes in the financial statements, analyze relevant global and local economic issues, and discuss future financial plans with campus management. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. Campuses are encouraged to use charts, graphs, and tables to enhance the understandability of the information presented.

As discussed above, the comprehensive variance analysis is the starting point in the preparation process and identification of significant changes. Significant changes and the



reasons for significant changes from the prior year, not simply the amounts or percentages of change, must be included as part of MD&A. Discussions with the appropriate campus personnel will be necessary to identify the underlying causes for the changes. Some of these changes may also require the campus to consider global and local economic issues. General economic issues may include changes in the national, state, or local economies, changes in market conditions, or changes in employment rates.

It is necessary to initiate discussions with management early on to identify expected changes, based on existing decisions and circumstances (i.e., known facts) in the campus financial situation. Examples of these are budgeted and actual changes in enrollment, the campus master plan, debt, budget, and new construction.

Review Process

Finally, a thorough review of the final MD&A and approval by an appropriate level of management is required to ensure that a complete and cohesive representation of the campus' financial activities is presented. This review and approval must be evidenced by formal sign-off on the MD&A checklist, as discussed below.



COMPLETION OF MD&A CHECKLIST

As previously discussed, the MD&A is subject to review and approval by an appropriate level of management prior to submission to the KPMG audit team.

The MD&A Checklist on the following page and related technical pronouncement references must be used in preparing the MD&A to ensure all required elements are included in the MD&A. Additional elements should *not* be included in MD&A.



MD&A ChecklistThe MD&A section requires a(n):

- 1) ___ Introduction of the basic financial statements including the relationship of the statements to each other. (*GASB 34, ¶ 11a*)
- 2) ___ Objective and easily readable analysis of financial activities based on currently known facts, decisions, or conditions, i.e., discussion of Statement of Net Asset variances. (*GASB 34, ¶ 8*)
- 3) ___ For each year presented, discussion of current year results in comparison with prior year with emphasis on current year, i.e. discussion of significant variances in the Statement of Revenues, Expenses, and Changes in Net Assets. (*GASB 34, ¶ 9*)
- 4) ___ Focus on the campus, with component units included if considered significant to the discussion. (*GASB 34, ¶ 10*)
- 5) ___ For each year presented, presentation of condensed financial information comparing the current year to the prior year. (*GASB 34, ¶ 11b and 127*)
- 6) ___ Reference to the component unit's separately issued financial statements when appropriate. (*GASB 34, ¶ 10*)
- 7) ___ For each year presented, analysis of the overall financial position and results of operations. (*GASB 34, ¶ 11c*)
- 8) ___ For each year presented, description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings and debt limitations that may affect future financings. (*GASB 34, ¶ 11f*)
- 9) ___ Description of currently known facts, decisions, or conditions that are expected to have a significant financial impact. (*GASB 34, ¶ 11h*)
- 10) ___ Review and approval of the final draft MD&A by an appropriate level of management prior to submission to the KPMG audit team. Approval signature must be provided below:

Approval signature: _____

Name: _____

Title: _____

Date: _____



EXCERPTS FROM RELEVANT GASB PRONOUNCEMENTS

The following excerpts from relevant GASB pronouncements are provided to assist management in the preparation of the MD&A.

GASB Statement 34; Preface:

Bringing in New Information

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. For the first time, those financial managers will be asked to share their insights in a required management's discussion and analysis (referred to as MD&A) by giving readers an objective and easily readable analysis of the government's *financial* performance for the year. This analysis should provide users with the information they need to help them assess whether the government's financial position has improved or deteriorated as a result of the year's operations.

GASB Statement 34; Summary:

- *Management's discussion and analysis (MD&A)*. MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is RSI (Required Supplementary Information), governments are required to present MD&A *before* the basic financial statements.

GASB Statement 34; ¶ 6:

Minimum Requirements for Basic Financial Statements and Required Supplementary Information

6. The minimum requirements for management's discussion and analysis (MD&A), basic financial statements, and required supplementary information other than MD&A are:
 - a. *Management's discussion and analysis*. MD&A, a component of RSI, should introduce the basic financial statements and provide an analytical overview of the government's financial activities. (See paragraphs 8-11.)



GASB Statement 34, as amended by GASB Statement 37; ¶ 8 - 11:

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 known⁶ 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 long-term analysis of the government's activities.⁷
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 assessed 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 discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. The information presented should be confined to the topics discussed in (a) through (h) below: ^a:
 - 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 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. Governments 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:

- (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 restriction, 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 assets and long-term debt activity⁸ during the year, including a discussion of commitments made for capital expenditure, 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 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,⁹ 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).

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

⁷ 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.

⁸ 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.

⁹ See footnote 6

^a Governments can provide additional details about the required topics in a through h. Information that does not relate to the required topics should not be included in MD&A, but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information.

**THE CALIFORNIA STATE UNIVERSITY
GAAP REPORTING MANUAL**

CHAPTER 7 – MANAGEMENT’S DISCUSSION AND ANALYSIS

OVERVIEW

Under GASB Statements 34, 35, and 37, the financial statements of the CSU must include the following:

- Management’s Discussion and Analysis (MD&A)
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Basic Financial Statements
- Required Supplementary Information (as needed)

GASB Statement 34 prescribes that MD&A precede the audited basic financial statements. First in presentation, MD&A is the last in construction. MD&A must be included in the campus’ stand-alone financial statements and related notes and provides a narrative interpretation of the data presented in the statements.

In the initial year of the CSU’s GASB 34 implementation (fiscal year ending June 30, 2002), MD&A discussed only one year of operations because prior year comparative data was not available. For the fiscal year ending June 30, 2003 (year two under GASB 34) analysis and presentation of comparative data between current and prior year was required in the MD&A. Beginning with the fiscal year ending June 30, 2004, three years of comparative financial data are now available. Thus, for campus financial statements with two-year comparative presentation, the MD&A is required to address *both* years presented. The “comparative” MD&A must include comparative financial information and related analysis for *both* years. That is, each year presented must have a comparison to the prior year. Therefore, three years of financial information must be included in the MD&A (current year, prior year, and the previous prior year).

MD&A discusses financial activities based upon facts, decisions, or conditions and is an analysis of financial position and the results of operations. Required topics for this section of the financial statements include:

1. Introduction to the basic financial statements
2. Objective analysis of financial activities
3. For each year presented, analytical comparison and discussion of current year results in comparison to prior year, with emphasis on current year:

4. Focus on the primary reporting entity (the campus)
5. For each year presented, presentation of condensed comparative financial information
6. Reference to component units' separately issued financial statements when appropriate
7. For each year presented, analysis of overall financial position and results of operations
8. For each year presented, description of significant capital assets and long-term debt activity including future implications
9. Description of currently known facts, decisions or conditions that are expected to have a significant financial impact.

Lead schedules, notes to the financial statements, and a comprehensive variance analysis are necessary tools for management's preparation of MD&A as required under GASB Statements 34 & 35.

The reporting requirements contained in GASB Statements 34, 35, 37, and 38 were intended to yield more meaningful financial statements, increase comparability between like institutions, and provide more information to the users of the financial statements. Nowhere is this more apparent than in the requirement for MD&A..

Appendix 1 to this Chapter contains a guide to assist management in the preparation of the campus' MD&A.