Drafting an MD&A

NCGFOA 2017 Spring Conference

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The Letter of Transmittal

- Purpose
  - A *subjective* cover letter for the CAFR
- Letterhead
  - The primary government's letterhead
- Dating
  - Ideally tied to issuance date; certainly no earlier than the date of the auditor's report
- Signing
  - Chief financial officer, at a minimum

The Letter Of Transmittal (cont.)

- Not RSI—unaudited
- Includes management's responsibility, reporting entity, major projects, awards & acknowledgements, etc.
- Also cash management, internal controls, risk financing and budgetary process
- SEA reporting not recommended for letter of transmittal

Specific Recommendations

- Formal transmittal of the CAFR
  - Legal requirements (e.g., required state reporting)
  - Assert management responsibility
  - Assert existence of internal controls
  - Assert performance of an independent audit
  - Reference to an MD&A

Specific Recommendations (cont.)

- Profile of the government
  - Basic information
    - Structure (e.g., council-manager)
    - General services
    - Geography, population, etc.
  - Component units (if any)
  - Budget process and requirements (e.g., legal level of budgetary control)

Specific Recommendations (cont.)

- Economic condition
  - Local economy
  - Long-term financial planning
  - Relevant financial policies
  - Major initiatives

Specific Recommendations (cont.)

- Awards and acknowledgements
  - Certificate of Achievement
  - Budget awards program
  - CAFR contributors
  - Recognize the support of the governing body and management in general

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Management's Discussion & Analysis

MD&A

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MD&A vs. Letter of Transmittal

- MD&A required by all entities preparing GAAP-based financial statements
  – Required Supplementary Information
  – Does *not* replace Letter of Transmittal

- Letter of Transmittal still required for a *CAFR*
  – More "housekeeping" type information
  – Most detailed information is now in the MD&A

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MD&A

- Immediately <u>precedes</u> basic financial statements in the financial section

- Narrative format (graphics are fine!)

- Similar to SEC requirements for public companies

- Prepared with non-accountants/ practitioners in mind

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What exactly is Required Supplementary Information?

- SAS No. 52
- Unaudited, but required to be presented
- Auditor applies limited procedures
- Inquiries of management
- Compare with financial statements
- If omitted or clearly inaccurate—explanatory paragraph

MD&A General Requirements

- GASB Statement No. 34, paragraph 11
  - ***Not*** a suggestion list
- MD&A represents ***both*** the minimum & the maximum requirements
- Governments may present as much detail as they want, as long as it is tied specifically to the MD&A requirements

MD&A Specifics

- Currently known facts, conditions & decisions
- Focus on current year—include comparisons to prior year
- Focus on primary government
- Avoid boilerplate
- Explain how fund results relate to government-wide results

MD&A Contents

- Description/brief discussion of the basic financial statements
- Condensed government-wide financial information
- Analysis of overall financial position & results of operations
- Analysis of fund positions & operations
- Analysis of budgetary matters

MD&A Contents (Cont.)

- Capital assets & long-term debt
- Information for governments using the modified approach for infrastructure (not relevant in NC)
- Information based on known events that may impact future operations (BE CAREFUL HERE) – with governmental-type & business-type activities discussed separately

MD&A Contents (Cont.)

- Charts & graphs may supplement - but may not replace - condensed financial information
- Currently known facts may highlight subsequent events disclosures
- Comparative financials - extra condensed financial information for single-purpose governments - not separate MD&A presentations

The *Most* Common GFOA Review Deficiencies Noted….

- "No discussion, no analysis"
- Capital asset and debt activity limited at best or ignored
- Budgetary variations/discussions virtually ignored
- Clear "cut and paste"
- Used to discuss future plans, objectives, etc.