**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

The MD&A should introduce the basic financial statements and provide an analytical overview of the government’s financial activities. The MD&A provides financial managers with the opportunity to present both a short term and long term analysis of the government’s activities. It is Required Supplementary Information (RSI) but it must be placed BEFORE the basic financial statements. The MD&A should provide basic financial information in a verbiage format for users of the financial statements that do not desire to go into great detail on the various transactions and balances.

The MD&A should provide an objective and easily read analysis of the government’s financial activities based upon currently known facts, decisions or conditions. The MD&A should include comparisons of the current year to the prior year based on the government-wide information with emphasis being placed on the current year. The fact-based analysis should discuss both the positive and negative aspects of the comparison with the prior year. It should provide an analysis of the government’s overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year’s activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. The MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operation.

The MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of component units. The decision to discuss matters relating to a component unit should be based on the individual component unit’s significance to the total of all discretely presented component units and that individual component unit’s relationship with the primary government.

**MD&A CONTENTS OUTLINE - The MD&A must contain the following:**

**a.** A brief discussion of the basic financial statements. This should include 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. At a minimum, the MD&A should present the information needed to support the analysis of financial position and results of operations as required in item c below. The MD&A should include the following elements:

* 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 amount amounts invested in capital; restricted amounts; and unrestricted amounts.
* program revenues, by major source.
* general revenues, by major source.
* total revenues.
* program expenses, at a minimum by function.
* total expenses.
* excess (deficiencies) before contributions to any term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers.
* contributions.
* special and extraordinary items.
* transfers.
* the change in net position.
* the ending net position.

**c.** An analysis of the government’s overall financial position and the results of operations. This should assist users in assessing whether financial position has improved or deteriorated as a result of the year’s operations. This analysis should address:

* both governmental and business-type activities as reported in the government-wide financial statements, and should further include reasons for significant changes from the prior year and not just the amounts or percentages of changes.
* In addition, important economic factors, such as changes in the tax base, that significantly affected operating results for the year should be discussed.

**d.** An analysis of balances and transactions of individual funds. This analysis should address:

* the reasons for significant changes in fund balances or fund net position,
* and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

**e.** An analysis of significant variations between the original and final budget amounts and between final budget amounts and the actual budget results for the General Fund. This analysis should include any currently known reasons for these 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 during the year. This should include a discussion of:

* commitments made for capital expenditures,
* any changes in credit ratings,
* and debt limitations that might affect the financing of planned facilities or services.

**g.** A discussion of the modified approach to reporting some or all of the infrastructure assets, if applicable. This will not be applicable to very many, if any South Dakota local governments since this option will not be selected by them since such an approach requires a massive amount of effort to accomplish. If this were applicable to a government, it would need to include:

* significant changes in the assessed condition of eligible infrastructure assets from the previous condition assessments
* how the current assessed condition compares with the condition level that the government has established
* any significant differences from the estimated annual amount to maintain or preserve eligible infrastructure assets compared with the actual amounts spent during the current period.

**h.** A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or the results of operations (meaning revenues, expenses and other changes in net position). For the purposes of the MD&A, GASB 34 defines "currently know facts" as information that management is aware of as of the date of the independent audit's report. Therefore, any matters (known facts) that arise between the preparation of the MD&A by the government and the field work date of the actual audit report, must be analyzed for possible modification of the MD&A.