

Five Tips for an Outstanding MD&A



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In the movie *I'm No Angel*, Mae West said, "When I'm good, I'm very good, but when I'm bad, I'm better." Alas, the same cannot be said of management's discussion and analysis (MD&A), the introductory narrative section of a government's annual audited financial statements. A well-crafted MD&A is a valuable companion to the financial statements, greatly helping the reader to understand and use the information. However, when MD&A is an afterthought in the financial statement preparation process, it may do more harm than good.

New requirements from the Governmental Accounting Standards Board (**GASB**) aim to address the common shortcomings in MD&A in practice, starting in 2026. But there's no reason to wait until then to make your government's MD&A readable, informative, and indispensable. Here are five tips for making MD&A sing without adding to your workload.

1) Start drafting early

Some governments put off writing their MD&A until just about every other part of the financial report is finished. Waiting that long, however, turns what should be an uncomplicated process into a dreaded burden.

The heart of MD&A is your **analysis** of the past year's finances and a **discussion** of how they changed from the prior year. When the fiscal year ends, you already know the reasons behind many of the major issues and most significant changes. So, start drafting your explanations right away when they are fresh in your mind. Getting your thoughts down on paper, so to speak, as the work of preparing and auditing the financial statements is happening, will make your MD&A more informative and useful to the reader, *as well as save time and effort*. The editing and polishing can come later.

2) Focus on "why"

As the preparer of your government's financial statements, you know better than just about anyone what happened financially over the past year. It is a story that you can tell with the unique insights of someone who was in the room where it happened. MD&A is designed for you to relate to the reader the explanations for what occurred and—most importantly—**WHY**.

The reader of MD&A can easily see from the summary financial tables which assets, liabilities, revenues, expenses, and other items have increased and decreased, and can quickly pinpoint those that have changed the most. What they may not know is *what caused those changes*. Who is better positioned than you to explain why?

It cannot be emphasized too strongly that the most valuable part of MD&A is how it communicates the backstory of your government's finances. You are especially capable of providing a behind-the-scenes tour of the financial report that will leave the reader better informed and ready to use the financial statements meaningfully and understandably.

3) Toot your horn

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MD&A is not a public relations document. But it is possible, nevertheless, to share your government's accomplishments and the ways in which it has been accountable to the public and a faithful steward over its scarce resources. The reader will appreciate your government's successes even more when you are forthright about its shortcomings as well.

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4) A picture is worth a thousand words

Take every opportunity to utilize charts, tables, and other graphics to help tell your government's story. Visual aids draw the reader's eye directly to the central issues and break up the monotony of the written word. A well-thought-out graph can replace paragraphs of explanation, making MD&A shorter and easier to digest.

Where can you find ideas for visual aids? Take a look at the financial reports of other governments and borrow liberally. No one will hold it against you, but your readers will thank you. (You might also find some useful graphics in the sample MD&A in Appendix C to the GASB's [new requirements](#).)

5) Finish it off with a flourish

The final section of MD&A is a place for you to talk about decisions, conditions, and other facts that the reader would benefit from knowing. This section is particularly suited for sharing important issues not reflected in the financial statements for the past year but that you believe will have a significant financial effect going forward. In practice, however, the last part of MD&A can look like a dumping ground for financial and economic odds and ends, the connection of which to the financial statements is not always clear.

The [new GASB requirements](#) identify several examples of the types of information that would be valuable to share in this section:

- Trends in relevant economic and demographic data, such as changes in population, enrollment, or subgroups within them
- Relevant factors in the subsequent year's budget that indicate expected changes in finances, such as shifts in resources available for appropriation or in planned spending
- Expected changes in budgetary net position or fund balance
- Actions your government has taken related to pensions, capital asset plans, and long-term financings
- Actions other parties have taken that will affect your government, such as new legislation or regulations.

Your MD&A can discuss things like that without waiting for the implementation of the new standards.

Want to know more about the impending changes to MD&A?

Watch: [A Deep Dive into Statement 103](#)

Read: [At Long Last, GASB Approves Financial Reporting Model Improvements](#)

Need help with your MD&A? [Contact](#) a CRI advisor today!