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University of California GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 200

Requirements for Management’s Discussion and Analysis (MD&A)

Define Issues

The University must develop specific processes to obtain campus-specific information in order to comply with the Management’s Discussion and Analysis (MD&A) requirements as outlined in GASB Statement No. 34.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. These Statements substantially revised the standards for external financial reporting by public institutions.

According to the new standards, the separately issued financial statements of public colleges and universities must include:

- Management’s Discussion and Analysis (MD&A)
- Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

As provided in the GASB Statement No. 34 Summary, “MD&A should provide an objective and easily readable analysis of the government’s financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year based on the government-wide information. 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. 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 operations.”

Authoritative Guidance

Paragraphs 8 through 11 of GASB Statement No. 34 provide the MD&A requirements and are reproduced in Appendix 1. However, these requirements are structured for state and local governments. The following restates the MD&A requirements in a format that is applicable to public colleges and universities.

- A. 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. (*GASB 34, ¶ 9*)
- B. At a minimum, MD&A must avoid “boilerplate” discussion and include:
 1. Discussion of the basic financial statements, including the relationship to each other, and the significant differences in the information they provide (UCOP only). (*GASB 34, ¶ 11a*)
 2. An analysis of the University’s 1) overall financial position, and 2) 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:
 - a) Reasons for significant changes from the prior year, not simply the amounts or percentages of change.
 - b) Important economic factors that significantly affect operating results for the year should be discussed. (*GASB 34, ¶ 11c*)

Analysis—Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets

3. Condensed financial information derived from the financial statements comparing the current year to the prior year, must be presented to support Item B.2. above, including, at a minimum:
 - a) Statement of Net Assets
 - i. Total assets, distinguishing between capital assets and other assets (*GASB 34, ¶ 11b (1)*)
 - ii. Total liabilities, distinguishing between long-term liabilities and other liabilities (*GASB 34, ¶ 11b (2)*)
 - iii. Total net assets, distinguishing between amounts:
 - Invested in capital, net of related debt

- Restricted amounts
 - Unrestricted amounts (*GASB 34, ¶ 11b (3)*)
- b) Statement of Revenues, Expenses and Changes in Net Assets
- i. Program revenues, by major source (*GASB 34, ¶ 11b (4)*)
 - ii. General revenues, by major source (*GASB 34, ¶ 11b (5)*)
 - iii. Total revenues (*GASB 34, ¶ 11b (6)*)
 - iv. Program expenses, at a minimum by function (*GASB 34, ¶ 11b (7)*)
 - v. Total expenses (*GASB 34, ¶ 11b (8)*)
 - vi. Operating and nonoperating income (*GASB 34, ¶ 11b (9)*)
 - vii. Contributions, including state capital appropriations, capital gifts and grants and additions to permanent endowment (*GASB 34, ¶ 11b (10)*)
 - viii. Special or extraordinary items (*GASB 34, ¶ 11b (11)*)
 - ix. Transfers (*GASB 34, ¶ 11b (12)*)
 - x. Change in net assets (*GASB 34, ¶ 11b (13)*)
 - xi. Ending net assets (*GASB 34, ¶ 11b (14)*)
4. An analysis of balances and transactions in significant funds addressing the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments or other limitations significantly affect the availability of fund resources for future use. (*GASB 34, ¶ 11d*)

Analysis—Capital Assets and Financing

5. A description of significant activity in the following two areas (activity to be presented in a summarized format): (*GASB 34, ¶ 11f*):
- a) Capital assets
 - b) Long-term debt
6. Include a discussion of the following (*GASB 34, ¶ 11f*):
- a) Commitments made for capital expenditures,
 - b) Changes in credit ratings, and
 - c) Debt limitations that may affect the financing of planned facilities or services.

Prospective Effect of Known Facts

7. A description of currently known facts, decisions or conditions that are expected to have a significant effect on (*GASB 34, ¶ 11h*):
- a) Financial position, or
 - b) Results of operations (revenues, expenses and other changes in net assets).

Recommended Approach

The information (schedules, exhibits, appendices, or narrative) required to prepare the MD&A must be provided by each campus in conjunction with the fiscal closing process. Appendix 2, *Campus Requirements to Support the Management's Discussion and Analysis Narrative*, provides the specifications for each campus' submission to UCOP. UCOP will consolidate the information and develop the MD&A to be included in the University's Annual Report.

The general approach will be to use the Consolidated Financial Reports system (CFR) to produce campus financial statements with related footnote reports in the same format as the consolidated financial reports. CFR will be used to identify and explain significant variances at each campus and at a consolidated level. To the extent necessary, exhibits and appendices that are currently required as part of the closing process will be modified or expanded to include all the necessary information for the MD&A. Because the auditor is associated with the information published in the Annual Report, each campus Controller must approve the exhibits and appendices. They will be subject to review by PricewaterhouseCoopers.

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
OP	1-Feb-01	Develop MD&A Requirements —Develop the MD&A requirements.
C/OP	1-Feb-01	Modify Existing Exhibits/Appendices —Modify the existing Capital Asset and Debt exhibits and appendices (refer to IRM No. 102, <i>Required Changes to Support the Capital Assets Disclosure</i> and No. 103, <i>Required Changes to Support the Indebtedness Disclosure</i>) in order to accumulate the required information to develop the MD&A.
C	12-Apr-01	Complete the Modified Exhibits/Appendices —Complete the modified Capital Asset and Debt exhibits/appendices for the June 30, 2001 close. Separate instructions will be included in IRMs No. 102 and 103. Completion dates will be provided in the June 30, 2001 fiscal closing schedule.
OP	31-Dec-01	Develop Remaining Exhibits/Appendices —Develop the exhibits to support the remaining aspects of the MD&A.
OP	1-Mar-02	Finalize Exhibits/Appendices —Ensure modified exhibits/appendices package is in place for the June 30, 2002 close.
OP	1-Aug-02	Incorporate Footnote Reports into CFR —Incorporate as many footnote reports as possible into CFR.
OP	20-Aug-02	Make CFR Available to Campuses —Make CFR available to campus users.

Appendix 1—Authoritative Guidance

GASB Statements No. 34

Management's Discussion and Analysis (MD&A)

GASB 34, Paragraph 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 known* 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 short- and long-term analysis of the government's activities.**

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

** 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.

GASB 34, Paragraph 9—MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. The 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.

GASB 34, Paragraph 11—MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid “boilerplate” discussion. At a minimum, MD&A should include:

- 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. At a minimum, governments should present the information needed to support their analysis of financial position and results of operations required in c. below, including these elements:
- 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.

- (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 expense, 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
- 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 restrictions, 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 asset and long-term debt activity* during the year, including a discussion of commitments made for capital expenditures, changes in credit rating, and debt limitations that may affect the financing of planned facilities or services.
- g. A discussion by governments that use the modified approach (paragraphs 23–25) 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,** 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).

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

Appendix 2—Campus Requirements to Support the Management’s Discussion and Analysis Narrative

The primary basis for developing each campus’ narrative supporting the consolidated Management’s Discussion and Analysis will be the following reports:

- From the Online Consolidated Financial Reports System (CFR):
 - Campus Statement of Net Assets
 - Campus Statement of Revenues, Expenses and Changes in Net Assets
 - Campus Statement of Cash Flows
 - Campus Capital Assets – Reconciliation of Original Cost
 - Campus Debt Activity Footnote Reports
 - Campus Operating Expense by Function Footnote Report
- From the Fiscal Closing Package Appendices:
 - Appendix C-2, Current and Noncurrent Financing Activity
 - Appendix G, Major Construction and Land Report

The CFR provides each campus with their primary financial statements, footnote disclosure reports and exception reports. Each of these reports is in a format that is consistent with the consolidated financial statements and footnotes.

Online access to CFR will be provided for up to three users on each campus. User access can be established by contacting Robert Baum at 510/ 987 0396 or at robert.baum@ucop.edu. Instructions for how to use CFR can be accessed from the Financial Reporting section of the UCOP GASB website.

Statement of Net Assets

Analytical comments related to each campus’ Statement of Net Assets will be based upon the following report:

- Campus Statement of Net Assets (CFR Report CFRU1211)

Provide analytical comments for each individual asset, liability or net asset line item that has either increased or decreased by ten percent and by \$5 million compared to the prior year. It is important that the analysis:

- compare the current year to the prior year, and
- include the reasons for significant changes from the prior year, not simply the amounts or percentages of change.

Please download your campus' Statement of Net Assets into an Excel file format, footnote each line item that falls into the established scope and provide comments. Send the completed file, with comments, to Amal Smith at UCOP by the established due date (amal.smith@ucop.edu or 510/ 987 0940).

Statement of Revenues, Expenses and Changes in Net Assets

Analytical comments related to each campus' Statement of Revenues, Expenses and Changes in Net Assets will be based upon the following report:

- Campus Statement of Revenues, Expenses and Changes in Net Assets (CFR Report CFRU1511)

Provide analytical comments for each individual operating revenue, operating expense, nonoperating revenue, nonoperating expense, or other changes line item that has either increased or decreased by more than 5 percent and by \$5 million compared to the prior year.

It is important that the analysis:

- compare the current year to the prior year,
- include the reasons for significant changes from the prior year, not simply the amounts or percentages of change, and
- include important economic factors that significantly affected operating results for the year.

Please download your Statement of Revenues, Expenses and Changes in Net Assets into an Excel file format, footnote each line item that falls within the established scope and provide comments. Send the completed file, with comments by the established due date, to Amal Smith at UCOP (amal.smith@ucop.edu or 510/ 987 0940).

Statement of Cash Flows

Analytical comments related to each campus' Statement of Cash Flows will be based upon the following report:

- Campus Statement of Cash Flows (CFR Report CFRU1711)

Provide analytical comments that describe, in summary, the reasons for increases or decreases in cash for the year. It is important that the analysis:

- compare the current year to the prior year,
- include the reasons for significant changes from the prior year, not simply the amounts or percentages of change, and

- include important economic factors that significantly affected operating results for the year.

Send the summary analysis by the established due date, to Amal Smith at UCOP (amal.smith@ucop.edu or 510/ 987 0940).

Capital Asset Activity

In order to provide comments related to the capital asset activity during the year please refer to the following reports:

- Campus Assets—Reconciliation of Original Cost (CFR Report CFRU2011), and
- Appendix G, Major Construction and Land Report (See IRM No. 102)

The comments should describe the significant activity during the year for each category, focusing on the 1) total additions, 2) disposals, and 3) transfers columns. Comments should include the names and amounts of major construction projects as outlined on your Appendix G, Major Construction and Land Report.

Please download your campus' Capital Assets—Reconciliation of Original Cost into an Excel file format and, in conjunction with your campus' Appendix G, footnote each line item that falls into the established scope and provide comments. Send the completed file, with comments by the established due date, to Amal Smith at UCOP (amal.smith@ucop.edu or 510/ 987 0940).

Debt Activity

Comments related to debt activity during the year will be based upon the following reports:

- Debt—Interest Expense (CFR Report CFRU2121)
- Debt—Long-Term Debt (CFR Report CFRU2141)
- Debt—Revenue Bond Activity (CFR Report CFRU2201)
- Debt—Certificates of Participation Activity (CFR Report CFRU2211)
- Debt—Mortgages and Other Borrowings Activity (CFR Report CFRU2221)
- Debt—Capital Lease Obligation Activity (CFR Report CFRU2231)
- Appendix C-2, Current and Noncurrent Financing Activity (See IRM No. 103)

The comments should be based upon the questions included on Exhibit C-2. Provide analytical comments related to business reasons for the significant activity during the year to include new debt, renegotiated debt, variable rate debt, violations of loan covenants, etc.

Please download your campus' debt activity footnote reports into an Excel file format and, in conjunction with your campus' Appendix C-2, footnote each line item where there is

significant activity and provide comments. Send the completed file, with comments by the established due date, to Amal Smith at UCOP (amal.smith@ucop.edu or 510/ 987 0940).

Operating Expense by Function

Analytical comments related to each campus' operating expenses by function will be based upon the following report:

- Operating Expense by Function (CFR Report CFRU2151)

Provide analytical comments that describe the reasons for significant variances by function. It is important that the analysis:

- compare the current year to the prior year,
- include the reasons for significant changes from the prior year, not simply the amounts or percentages of change, and
- include important economic factors that significantly affected operating results for the year.

Please download your campus' Operating Expense by Function footnote reports into an Excel file format and footnote each line item where there is significant activity and provide comments. Send the completed file, with comments by the established due date, to Amal Smith at UCOP (amal.smith@ucop.edu or 510/ 987 0940).