

The art of writing management's discussion and analysis (MD&A)

Effectively writing management's discussion and analysis (MD&A) is an art of bringing together a common theme with analytical details. For many, this is an art that occurs only once a year and can be challenging to get a utility's story consistent to the readers of the financial statements. During the course of reading thousands of MD&As, we have accumulated what we perceive to be the challenges and best practices of writing this part of the financial statements.

The MD&A is a tool to introduce the financial statements. It is used to analytically describe the story of the utility. For cooperatives and other independent power producers, it is generally not required; however, we have seen it used more frequently as a best practice. For municipal utilities and stand-alone governmental reporters, it was introduced with GASB Standards No. 34; the intent was to provide more useful information to a wider range of users, and provide relevant and reliable information to knowledgeable users of the financial statements. There are many requirements of the MD&A, which can be found in GASB 34, but the underlying purpose is to provide an analysis of a utility's business, results of operations, and financial condition "through the eyes of management."

Common shortcomings to the MD&A include the following:

1. **Using a prior year's MD&A as a starting point.** This is the plug-and-play system that is commonly used. Using the prior year MD&A may save time, but the current year story and message may be significantly different than the prior year.
2. **MD&A information is repetitive of what is included in the financial statements.** This may not provide value-added content to the reader.
3. **Financial information is highly aggregated.** This can present difficulty in providing an adequate explanation of changes to the reader.
4. **Many different individuals are responsible for the preparation of the MD&A and financial statements.** This could result in the MD&A lacking a common theme and common source of information.
5. **Information presented in the MD&A does not agree or have linkage to the financial statements.** This results in confusion to the reader.
6. **Use of acronyms that are familiar to a utility may not be familiar to a reader.** This again results in confusion to the reader.



To help combat some of these shortcomings, we recommend the following best practices:

1. **Get out of the rut and start fresh.** Before starting to write the MD&A, plan out the theme and information that will be important to the reader.
2. **Provide top-down analysis.** Before getting to the details, make sure the reader understands the overall results, especially if the details are provided elsewhere in the financial statement.
3. **Explain why.** The readers can calculate the dollar and percentage changes to the financial statements, but they are more interested in the cause and effect of these changes. This is management's opportunity to explain what is changing in the utility.
4. **Assign responsibility to one individual for the entire MD&A.** This does not mean that one person should be responsible for creating the entire MD&A; it is extremely important to get other departments involved in drafting and confirming source information. However, ensuring a common theme and consistent writing style is important to get management's points across in a consistent and effective manner.
5. **Present information that is truly material.** Standards do not require a utility to describe every variance. Management should focus on those changes that are significant to the utility and truly explain why those changes are occurring.

6. **Use plain language.** Remember that readers of the MD&A may not understand all of the common acronyms and language of the utility business. As such, is it important for changes to be described in plain language, easily understood by all readers of the MD&A. Graphs and charts can be a useful aid in understanding complex situations.
7. **Add reader-friendly elements.** Use headings and sub-headings to break up lengthy text to aide users in finding pertinent information.
8. **Integrate reporting.** In order to bring together an annual report and have a consistent message from cover to cover, get the general manager/CEO and other management involved early in the process to identify key messages and themes.
9. **Compare information in the MD&A with other public disclosures.** This is to ensure consistency with other disclosures made throughout the reporting period.
10. **Involve a cold reader.** Utilize a cold reader who understands the changes in the utility, but who is not involved in drafting the MD&A. This reader can

assist in making sure a clear and consistent message is delivered to the readers of the financial statements.


The MD&A is generally the first thing readers of the financial statements will read and it should give them a clear picture of what occurred during the reporting period. MD&As should capture a reader's attention. They should also clearly and effectively communicate management's analysis to the readers of the financial statements; this is done by using clear language, a logical structure, and effective presentation. Writing an MD&A is a balancing act of providing relevant information without getting lost in the details. However, starting with a common theme and understanding the message that should come across to the readers of the financial statements will provide a utility with the means of communicating information effectively. **NWPPA**


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