



mGO.

Avoiding Financial Statement Pitfalls: What Goes Wrong and How to Fix it?

PRESENTED BY

David Bullock, CPA and Marilyn Toledo, CPA

June 10, 2026

Your Instructors



David Bullock
Partner



Marilyn Toledo
Assurance Director

Agenda

1	➤	Most Commonly Given GFOA Comments
2	➤	Auditors' Common Review Comments
3	➤	Consideration for GASB Statement No. 103, Financial Reporting Model Improvements

Learning Objective

By the end of this course, you should be able to:

- Identify the most common financial statement presentation and disclosure deficiencies.



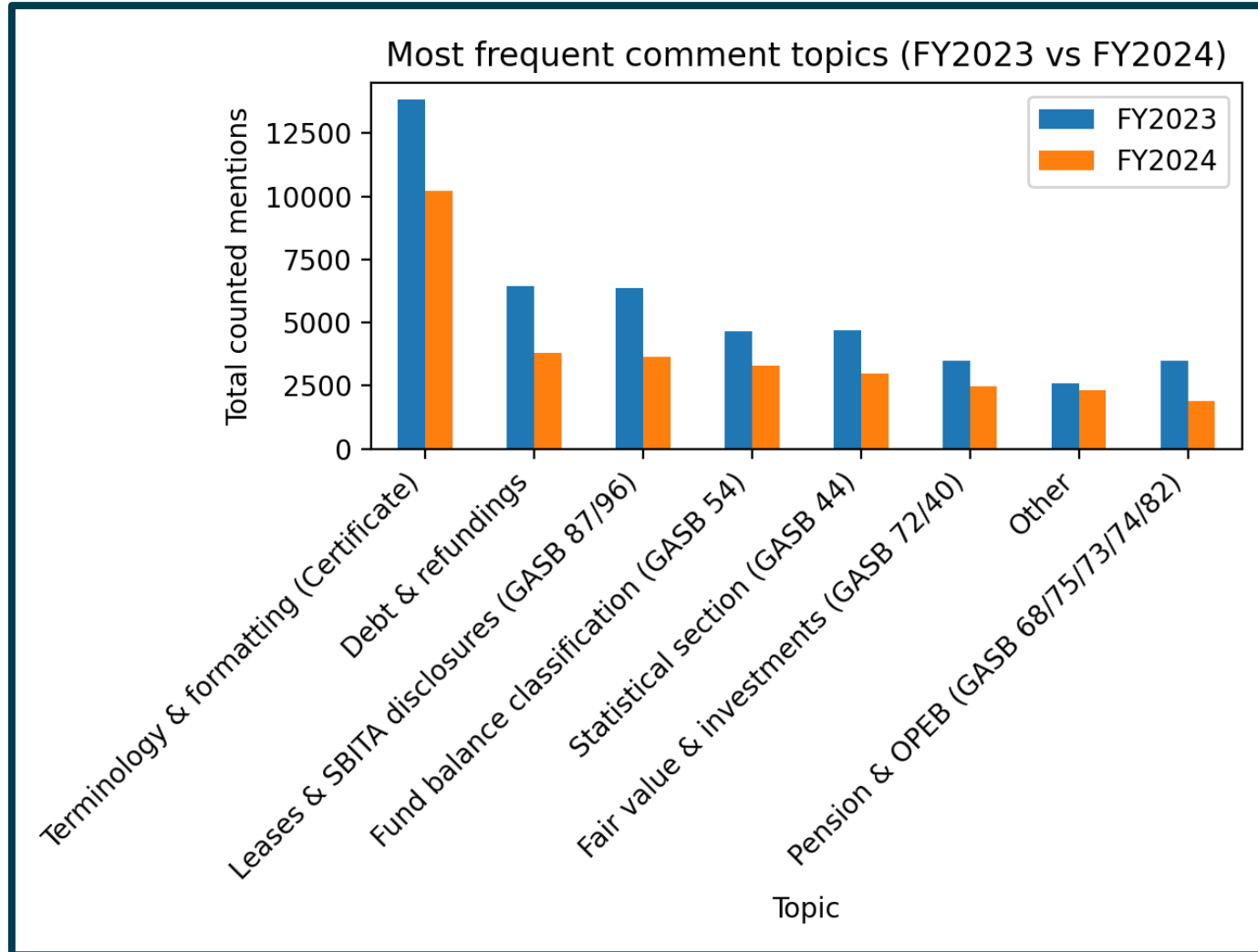
'mgo.

Most Commonly
Given GFOA
Comments



'mgo.

Most Commonly Given GOFA Certificate Program Comments



ACFR Sections Most Frequently Cited by Reviewers

Management's Discussion and Analysis (MD&A)	MD&A requires narrative judgment and clear explanations beyond simply numerical changes, often drawing reviewer feedback.
Long-Term Obligations	Disclosures on pensions, OPEB, leases, and subscriptions frequently show errors due to evolving GASB standards.
Net Investment in Capital Assets	Calculating net investment involves careful classification of related assets and liabilities, often causing review issues.
Internal Consistency Challenges	Reviewers frequently find mismatches between MD&A, notes, statements, and tables, highlighting quality control issues.

Poll 1: Reviewer Hot Spots

Which ACFR section most often receives reviewer comments?

- Management's Discussion and Analysis
- Long-Term Obligations
- Net Investment in Capital Assets
- Statistical Section

Top 10 Most Common Reviewer Comments

#1: MD&A Lacks Explanation of Fund Balance Changes

Common MD&A Comment	MD&A often fails to explain reasons behind significant fund balance changes beyond stating revenue or expenditure shifts.
Expected Explanation Content	Government should clarify economic, policy, or operational drivers like tax changes or grant timing affecting fund balances.
Impact of Poor Explanation	Lack of clear explanation limits MD&A for non-expert readers, including officials and the public.
Improving MD&A Effectiveness	Linking financial results to real-world events transforms MD&A into a power communication tool, not just compliance.

#2: Outdated Terminology

Common Terminology Errors	Outdated terms like Comprehensive Annual Financial Report and market value cause reviewer concerns and reduce clarity.
Importance of Current Standards	Using correct terminology reflects professionalism and adherence to current certificate program standards.
Solution via Review Process	A global search-and-review late in preparation can easily identify and correct terminology issues.

#3: Incomplete Presentation of Direct and Long-Term Debt

Omission of Debt Instruments	Governments often omit leases, notes, and certificates of participation when reporting long-term debt, causing incomplete presentations.
Compliance with GASB and GFOA	Standards require including all relevant long-term obligations for accurate debt reporting in financial and statistical sections.
Impact on Debt Measures	Incomplete reporting distorts debt burden metrics and hinders comparability across fiscal years.
Importance of Comprehensive Inventory	Maintaining a full inventory of all long-term obligations ensures accurate reflection of debt in ACFR financial and statistical sections.

#4: Pension and OPEB Liabilities Due within One Year

Classification Requirements	GASB requires recognizing benefit payments due within one year as current liabilities for non-trust administered plans.
Common Misclassification Issue	Many governments classify entire pension and OPEB liabilities as noncurrent without clear justification.
Impact on Financial Statements	Incorrect classification can misstate liquidity indicators and reduce clarity of the net position statement.
Review and Correction Process	Address issues by reviewing payment schedules, confirming plan administration, and aligning disclosures and classifications.

#5: Errors in Net Investment in Capital Assets Calculation

Common Calculation Errors	Mistakes often stem from including non-capital liabilities like pension liabilities or restricted cash in calculations.
Technical Complexity	Net investment calculation requires precise identification of capital-related assets and liabilities, making it technically demanding.
Prevention Methods	Clear, documented methodology and annual reconciliation reviews are essential to avoid repeated errors in calculations.

Poll 2: Most Common

What is the most common issue reviewers see?

- Capital asset calculation errors
- MD&A does not explain changes
- Missing long-term debt
- Outdated terminology

#6: Lease Assets Not Properly Disclosed as Capital Assets

Implementation Challenges	New GASB standards change presentation requirements, causing confusion over lease asset classification in reports.
Disclosure Issues	Lease assets are often not clearly labeled or aggregated within capital assets, resulting in inconsistent totals.
Importance of Reconciliation	Clear labeling and proper aggregation of lease assets are essential to avoid recurring audit comments.

#7: SBITA Liabilities Missing from Debt Disclosures

Complexity of SBITA Reporting	SBITA arrangements add complexity to debt and asset reporting, often leading to missing or incomplete disclosures.
Common Disclosure Issues	Frequent problems include omitting SBITA liabilities from debt schedules and missing future payment details.
Cross-Department Communication	IT and procurement management of SBITAs increases risk; effective interdepartmental communication is essential.
Use of Standardized Checklists	Standardized disclosure checklists help address recurring issues and improve reporting accuracy.

#8: Inconsistencies Between MD&A and Financial Statements

Recurring Reporting Discrepancies	Inconsistencies between MD&A and financial statements often undermine reader confidence and suggest review weaknesses.
Causes of Inconsistencies	Drafting MD&A early or manual updates without systematic checks frequently cause report discrepancies.
Recommended Solutions	Finalize MD&A after financial statements are complete and verified with explicit reconciliation steps.

#9: Statistical Tables Do Not Agree with Financial Section

Common Discrepancies	Statistical and financial sections often differ due to inconsistent updates across multiple years.
Importance of Internal Consistency	The Certificate Program expects consistent data throughout the ACFR despite statistical sections being supplemental.
Best Practices to Reduce Comments	Clear documentation of data sources and final reconciliation between data sets reduce reviewer comments.

#10: Transmittal Letter Does Not Meet Certificate Requirements

Common Transmittal Letter Issues	Frequent problems include incorrect dates, missing audiences, and omitted key content in transmittal letters.
Importance of Introductory Section	The Certificate Program values completeness and professionalism in the transmittal letter and introductory section.
Standardized Checklist Benefits	A standardized transmittal letter checklist helps ensure all required elements are included and errors avoided.

What These Trends Tell Us

Across the top 10 reviewer comments, a consistent pattern emerges.

- Most comments are not about complex accounting judgments.
- Comments are largely preventable.
- They are repetitive year over year.
- They focus on structure, presentation, and consistency, not judgment.

Common root causes are listed below.

- Partial implementation of new GASB standards.
- Cut-and-paste carryover from prior years.
- MD&A and introductory sections were prepared too early.
- Missing or incomplete final tie-outs.
- No standardized review checklists for high-risk areas.



mGO.

Auditors' Common Review Comments



mGO.

Auditors' Common Review Comments

Internal consistency errors

- Notes and statement face amounts do not reconcile
- Mathematical or cross-footing errors
- Rounding off
- Inconsistency in title

Cash flows

- Non-cash items not presented

Conversion of governmental funds to government-wide financial statements

- Capital outlay and capital assets additions
- Principal paid and long-term debt reductions
- Issuance of long-term liabilities and long-term liability additions

Poll 3: Reviewer Comments

Why do many reviewer comments keep happening year after year?

- Complex accounting rules
- Limited staff resources
- Lack of internal consistency
- New GASB standards



'mgo.

Consideration for
GASB Statement No.
103, *Financial
Reporting Model
Improvements*

Scope

Big changes

- Management's Discussion and Analysis
- Presentation of proprietary fund statement of flows
- Budgetary comparison information

Other changes

- Unusual or infrequent items
- Information about major component units in BFS
- Financial trends in statistical section for BTAs



MD&A Requirements: Paragraphs 4 – 8

Information presented should be confined to topics discussed in the following five sections.

1. Overview of the Financial Statements
2. Financial Summary
3. Detailed Analyses
4. Significant Capital Asset and Long-Term Financing Activity
5. Currently Known Facts, Decisions, or Conditions

This statement emphasizes that detailed analyses should explain why balances and results of operations changed, rather than simply present **the amounts or percentages by which they changed**.

This statement emphasizes that the analysis in MD&A should avoid unnecessary duplication by not repeating explanations relevant to multiple sections and that **boilerplate** discussions should be avoided.

MD&A Traps and Fixes

1. Treating the Five Sections as **Suggested** Rather than Mandatory

Trap

- Continuing to present MD&A in the old GASB 34 narrative flow, for example, blending budgetary analysis, capital assets, and future outlook throughout the document.

Why it's a problem

- Statement 103 requires MD&A to be limited to five specific sections in order. Departing from this structure is noncompliant, even if all topics are technically discussed elsewhere.

Avoidance tip

- Start with the five section headers exactly as described in Statement 103, then refactor existing MD&A content into those buckets. Don't wait until year end to redesign your MD&A.

2. Relabeling Old Content Without Changing the Substance

Trap

- Renaming prior-year MD&A paragraphs to match the new section titles while leaving the discussion largely unchanged.

Why it's a problem

- Statement 103 sharply shifts MD&A from descriptive reporting to explanatory analysis. Simply restating percentage or dollar changes is no longer sufficient: Governments must explain **why** changes occurred.

Red flag for auditors

- Phrases like **increased primarily due to an increase in revenues** without causal detail, such as rate changes, volume, and policy decisions.

3. Boilerplate **Known Facts** That Don't Actually Affect the Future

Trap

- Using generic statements such as **management will continue to monitor economic conditions.**

Why it's a problem

- The final section must discuss currently known facts, decisions, or conditions that are reasonably expected to impact future financial position. Boilerplate language is explicitly discouraged under Statement 103.

Better practice

- Tie future impacts to enacted budgets, approved capital plans, labor contracts, economic indicators, or policy changes.

Proprietary Funds

Presentation of propriety fund statement of revenues, expenses, and changes in fund net position.

Distinguish between operating and nonoperating revenues and expenses, as well as separately report noncapital subsidies, a type of nonoperating revenue and expense.

Operating revenues (detailed)
Total operating revenues
Operating expenses (detailed)
Total operating expenses
Operating income (loss)
Noncapital subsidies (detailed)
Total noncapital subsidies
Operating income (loss) and noncapital subsidies
Other nonoperating revenues and expenses (detailed)
Total other nonoperating revenues and expenses
Income (loss) before unusual or infrequent items
Unusual or infrequent items (detailed)
Increase (decrease) in fund net position
Fund net position—beginning of period
Fund net position—end of period

Budgetary Comparison Information

Budgetary comparison schedules should be presented as RSI — no longer optional to present in basic financial statements — for the general fund and each major special revenue fund that has a legally adopted annual budget.

Separate columns for variances between

- Original and final budget amounts, with the latter being new.
- Final budget amounts and actual results.

An explanation of significant variances between original and final budget amounts and between final budget amounts and actual results is also **required to be presented in notes to RSI**, not MD&A.

Practical Recommendations

Targeted Checklists	Use checklists for high-risk areas to ensure all required disclosures are properly addressed and prevent reviewer feedback.
Focus Areas for Improvement	Prioritize MD&A quality, long-term obligations, asset presentation, terminology, and internal consistency to reduce comments.
Internal Consistency Checks	Formalize consistency checks requiring reconciliation between MD&A, notes, statements, and statistical tables.
Staff Training and Terminology Review	Regular training and terminology updates reduce reliance on outdated templates and improve standards compliance.

Poll 4: GASB 103

Under GASB 103, what is MD&A expected to do?

- Explain why financial changes occurred
- Restate financial statement numbers
- Repeat prior-year language
- Summarize notes and tables

**ANY
QUESTIONS?**

Poll questions: Join [MGOcpa.cnf.io](https://mgocpa.cnf.io)



mgo.