FORsights

Details on GASB's New Required Risk

On January 8, 2024, GASB issued Statement 102, *Certain Risk Disclosures*, requiring governments to disclose information about certain concentrations or constraints that could affect services provided or the ability to meet obligations as they come due. The statement includes four nonauthoritative examples of concentrations and constraints, including a financial resource provider, collective bargaining, mandated spending, and an employer concentration.

Effective Date Statement 102 Risk Disclosures (early adoption encouraged)	Fiscal years beginning after June 15, 2024

Background

State and local governments face a variety of risks that could impact services provided or the ability to meet obligations when they come due. Although governments must disclose information about their exposure to some risks, essential information about other prevalent risks is not routinely disclosed because it is not explicitly required.

Scope

Statement 102 applies to the financial statements of all state and local governments.

Concentrations & Constraints

Concentrations and constraints may limit a government's ability to acquire resources or control spending.

Concentrations

Statement 102 defines a concentration as "a lack of diversity related to an aspect of a significant inflow of resource or outflow of resources." This may limit a government's ability to acquire resources or control spending. Some examples of concentrations could include—but are not limited to—the following:

- **Employers** – A concentration exists when a small number of employers comprise a significant portion of the total employment in a government's jurisdiction. One employer moving to another jurisdiction or going out of business could result in a substantial decrease in a government's income, sales, or property tax revenue. Employees who move with the business will no longer be living in the jurisdiction, contributing to its economy, or paying taxes. Employees of a closed business may be less able to contribute to the economy or pay taxes and may increase the government's unemployment costs.
- **Industries** – Some governments may rely on a principal industry that dominates their tax base, such as tourism or retail trade. Tax revenues could be lost or otherwise substantially affected if there is an industry disruption.
- **Inflows of Resources** – A government may have a concentration in its revenue composition if most of its revenue consists of property taxes, as opposed to an array of taxes, fees, and grants.

- **Workforce Covered by Collective Bargaining Agreements** – A government may be unable to adequately control spending if a sizable portion of the government's employees are covered by a collective bargaining agreement that locks in wages, benefits, or staffing levels.
- **Resource Providers** – A sizable portion of a government's sales tax revenue may come from a small number of large retailers, or a majority of a school district's revenue may come from state aid. Some business-type activities, such as utilities, may receive a sizable portion of their revenues from user charges to a small number of customers.
- **Suppliers of Material, Labor, or Services** – A government that is reliant on a particular supplier for unique or critical materials and services may result in a spending-related concentration. This process often starts with the board of directors discussing strategy development and exploring efficiency opportunities.

Constraints

Statement 102 defines a constraint as "a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority." A constraint may affect a government's ability to continue to provide services at the current level or to meet its obligations as they come due. Examples could include—but are not limited to—the following:

- **Limitations on Raising Revenue** – Constraints on a government's ability to obtain resources include—but are not limited to—those imposed by creditors, grantors, or contributors; enabling legislation; and statutory or constitutional limitations such as state-government-imposed caps on the assessment or levying of property taxes.
- **Limitations on Spending** – A government's ability to control spending may be adversely affected by limitations on what costs can be incurred and in what amounts. For example, debt covenants typically stipulate the level of spending relative to pledged revenue.
- **Limitations on the Incurrence of Debt** – There may be statutory or constitutional limitations such as constraints on the total amount of debt a local government may have outstanding.
- **Mandated Spending** – Mandates to expend resources on a particular program may diminish a government's spending flexibility by prohibiting the government from reducing spending on that program or requiring that the government contribute additional resources of its own.

Disclosure Criteria

GASB's goal is to elicit information about only those risks that would be most useful to financial statement users. Statement 102 requires a government to disclose information about a concentration or constraint only if all the following criteria are met:

- It is known to the government prior to issuing the financial statements. A government is not required to search for a wide range of potential events that might result from each concentration or risk it faces.
- The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact.
- An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the financial statement date. A similar time frame is used for going concern considerations.

If mitigating actions taken by the government prior to the issuance of the financial statements cause any of the disclosure criteria not to be met, none of the disclosures in the next section are required.

Disclosures

If the criteria are met, a government would include information in the financial statement notes in sufficient detail to enable financial statement users to understand the general nature of the circumstances disclosed and their potential effect on the government's ability to provide services at the level provided in the current reporting period or meet its obligations as they come due. That disclosure would include descriptions of:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Mitigation **actions taken** by the government prior to financial statement issuance. **Planned efforts** may constitute a prediction about future events and should not be included in the financial statement notes.

If comparative financial statements are presented, the reporting requirements apply only to the financial statements of the current period. If the above disclosures supplement disclosures required by other authoritative guidance, then Statement 102 disclosures should be combined with those note disclosures in a manner that avoids unnecessary duplication. Information should be provided for the reporting units for which all the disclosure criteria are met. Information that is the same for more than one reporting unit should be combined to avoid unnecessary duplication.

Governments should consider the requirements in paragraph 63 of Statement No. 14, *The Financial Reporting Entity*, as amended.[1]

Effective Date & Transition

Statement 102 will be effective for fiscal years beginning after June 15, 2024 and all reporting periods thereafter. The changes should be applied on a prospective basis.

Conclusion

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[1] Notes essential to fair presentation in the reporting entity's general purpose financial statements encompass:
a. The fund types and account groups of the primary government, including its blended component units.
b. Individual discretely presented component units considering both:
(1) The unit's significance relative to the total discretely presented component units.
(2) The nature and significance of the unit's relationship to the primary government.