DECEMBER 2023

Governmental Accounting Standards Series

Statement No. 102 of the Governmental Accounting Standards Board

Certain Risk Disclosures

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

The GASB website can be accessed at www.gasb.org.

Summary

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- 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
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

Effective Date and Transition

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

How the Board Considered Costs and Benefits in the Development of This Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

The Board believes that, in general, (1) the facts and circumstances related to concentrations or constraints and events that are addressed in this Statement already are known to governments and (2) the costs associated with the implementation of and continued compliance with this Statement are limited to governments' judgments related to the disclosure criteria. The Board believes that the expected benefits that will result from the implementation of this Statement—essential information about risks that is understandable, reliable, relevant, timely, consistent, and comparable—are significant and justify the perceived costs of implementation and ongoing compliance.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

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Standards Board

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December 2023

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
of the Financial Accounting Foundation
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Statement No. 102 of the Governmental Accounting Standards Board

Certain Risk Disclosures

December 2023

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Statement No. 102 of the Governmental Accounting Standards Board

Certain Risk Disclosures

December 2023

INTRODUCTION

1. State and local governments may be vulnerable to a variety of risks. Although existing authoritative guidance requires governments to disclose information about their exposure to some risks, information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. The requirements of this Statement apply to the financial statements of all state and local governments.

3. This Statement amends NCGA Interpretation 6, *Notes to the Financial Statements Disclosure,* paragraph 5.

Certain Concentrations or Constraints

4. A government may be vulnerable to risks from certain concentrations or constraints that limit its ability to acquire resources or control spending.

5. A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources.[1] Examples include, but are not limited to, the composition of any of the following:

a. Employers
b. Industries
c. Inflows of resources
d. Workforce covered by collective bargaining agreements
e. Providers of financial resources
f. Suppliers of material, labor, or services.

6. A constraint is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. Examples include, but are not limited to, the following:

a. Limitations on raising revenue
b. Limitations on spending
c. Limitations on the incurrence of debt
d. Mandated spending.

Disclosure Criteria

7. A government should disclose in notes to financial statements the information required by paragraph 9 if all the criteria in subparagraphs (a)–(c) below are met. The disclosure criteria should be assessed for the primary government[2] reporting unit and all other reporting units that report a liability for revenue debt.

a. A concentration or constraint (paragraphs 4–6) is known to the government prior to the issuance of the financial statements.
b. The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact.

[1] An example of an inflow of resources is revenue, and an example of an outflow of resources is expense.

[2] Unless otherwise noted, the term *primary government* includes the primary government and its blended component units, as defined in Statement No. 14, *The Financial Reporting Entity.*

c. 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[3] to begin to occur within 12 months of the date the financial statements are issued.

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 note disclosures in paragraph 9 are required.

General Disclosure Principles

8. Information about risks related to a government's vulnerabilities due to certain concentrations or constraints should be disclosed in notes to financial statements according to the following general principles:

a. If comparative financial statements are presented, the reporting requirements only apply to the financial statements of the current period.
b. Certain disclosures required by paragraph 9 may supplement note disclosures required by other authoritative guidance. In those circumstances, the information required to be disclosed by this Statement should be combined with those note disclosures in a manner that avoids unnecessary duplication.
c. Information should be provided for the reporting units for which all the disclosure criteria in paragraph 7 are met. Information that is the same for more than one reporting unit should be combined in a manner that avoids unnecessary duplication.
d. Disclosure information is subject to the requirements in paragraph 63 of Statement No. 14, *The Financial Reporting Entity,* as amended.

Notes to Financial Statements

9. For each concentration or constraint that meets all the criteria in paragraph 7, governments should disclose in notes to financial statements the information required by subparagraphs (a)–(c) below. A government should provide information in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's

[3]For purposes of this Statement, *more likely than not* means a likelihood of more than 50 percent.

vulnerability to the risk of a substantial impact associated with the concentration or constraint. The disclosures should include descriptions of the following:

a. The concentration or constraint
b. 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
c. Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

EFFECTIVE DATE AND TRANSITION

10. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by the affirmative vote of six members of the Governmental Accounting Standards Board. Ms. Reck dissented.

Joel Black, *Chair*
Jeffrey J. Previdi, *Vice Chair*
Brian W. Caputo
Kristopher E. Knight
Dianne E. Ray
Jacqueline L. Reck
Carolyn Smith

Appendix A

BACKGROUND

A1. Various types of stakeholders have expressed concerns about risks that governments face that may limit the ability of governments to acquire resources or control spending—concerns that were amplified as a result of the COVID-19 pandemic. General disclosure guidance in *FASB Accounting Standards Codification*® Topic 275, Risks and Uncertainties, requires a nongovernmental entity to disclose risks and uncertainties related to the nature of its operations, its use of estimates in the preparation of financial statements, and its current vulnerability due to certain concentrations. The Board considered incorporating the original source of that guidance—American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties*—into the GASB's standards during the development of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* However, although the three broad types of risk in FASB Codification Topic 275 are relevant to governments, the Board concluded that, because of the differences between the public and private sectors, each should be carefully considered in the context of the governmental environment. Therefore, the Board did not codify the guidance through Statement 62.

A2. The members of the Governmental Accounting Standards Advisory Council (GASAC) discussed the topic of risk disclosures at their June 2020 meeting. Those members who expressed a view were supportive of the addition of a project on the topic. In July 2020, the Board added a project on risk disclosures to its technical agenda. Board deliberations began in September 2020.

A3. In June 2022, the Board approved for issuance an Exposure Draft, *Certain Risk Disclosures,* and 49 comment letters were received in response from organizations and individuals. As discussed in Appendix B, comments and suggestions from stakeholders contributed to the Board's deliberations in developing the requirements of this Statement. In addition, members of the GASAC provided feedback on the project at several of their meetings throughout the Board's deliberations. The Board's consideration of the individual feedback from GASAC members is incorporated throughout Appendix B. When project issues are discussed with GASAC members, the GASAC does not take formal positions either in support of or in opposition to those issues.

Appendix B

BASIS FOR CONCLUSIONS AND DISSENT

Basis for Conclusions

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

B2. This Statement addresses financial reporting for certain risks that governments face. In the context of this Statement, *risks* refer to conditions that give rise to the potential for loss or harm to a government. Certain conditions may exist that make a government vulnerable to those risks; that is, they expose the government to a heightened possibility of loss or harm by limiting its ability to acquire resources or control spending. In establishing the scope of this Statement, the Board considered two potential approaches. The first approach would have defined the scope broadly by developing a general description or definition of risks subject to certain criteria. The key feature of that approach would have been the identification of suitable criteria to apply so that a government could determine which risks should be disclosed. Although the resulting disclosures could have provided insights into what the management of the government believes are risks that are specific to its government, the Board believes that approach would not have confined the disclosures to a specified type of condition. Therefore, the Board concluded that the approach would have been costly to apply and potentially overly subjective, which could have diminished consistency, comparability, and reliability.

B3. The second approach considered by the Board focused more narrowly on certain risks by identifying specific conditions that also would be subject to the disclosure criteria established in the first approach. The Board concluded that the second, narrower scope is more suitable because it is less costly to apply and better promotes consistency, comparability, and reliability in the information that governments disclose.

B4. As part of its deliberations, the Board considered whether the sources of risk addressed in FASB Codification Topic 275 were applicable to the governmental environment and, if so, whether information about those risks met the conceptual criteria for disclosing information items in notes to financial statements, including the criterion of essentiality. The sources of risk addressed in FASB Codification Topic 275 were those related to a nongovernmental entity's (a) nature of operations, (b) use of estimates in the preparation of financial statements, and (c) significant concentrations in certain aspects of an entity's operations. The Board also considered whether this Statement should address other sources of risk that were not included in FASB Codification Topic 275 but for which information may be essential to users of government financial statements in their decision making and assessments of accountability.

B5. The Board concluded that risks resulting from the "nature of operations" for governmental entities would result in boilerplate disclosures, which would not provide information that was essential to users of government financial statements. However, based on feedback from interviews conducted with users, the Board concluded that the environment in which governments operate can expose governments to certain risks that may limit a government's ability to acquire resources or control spending. For that reason, the Board concluded that this Statement should address note disclosures related to certain constraints, as described in paragraphs B12 and B13.

B6. The Board also considered addressing note disclosures resulting from risks from the general use of estimates in a government's financial statements. The Board concluded that information about a government's use of estimates in the preparation of its financial statements does not meet the criteria for disclosing information in notes to financial statements, as provided in Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements,* because that information may be general and educational in nature and not specific to the reporting government. Furthermore, users of government financial statements are responsible for obtaining a reasonable understanding of the fundamentals of governmental financial reporting, including an

awareness that the preparation of financial statements involves a certain amount of estimation. The Board also considered risks resulting from the uncertainty involved in certain inputs that affect estimated amounts recognized in the financial statements or disclosed in notes to financial statements. After considering the feedback from user interviews, the Board concluded that information related to that type of risk is not essential to users' decisions or assessments.

B7. With respect to the third source of risk addressed in FASB Codification Topic 275—significant concentrations in certain aspects of an entity's operations—the Board concluded that governments also are exposed to risk from certain concentrations, some of which are similar to those of nongovernmental entities and others of which are specific to governments. The feedback received from user interviewees and Exposure Draft respondents indicated that information about vulnerabilities due to certain concentrations, as described in paragraphs B10 and B11, is essential in assessing a government's financial condition as well as its sensitivity to various resource and spending scenarios. The Board noted that although information about certain concentrations can be obtained from supplementary information presented in the statistical section that may accompany a government's basic financial statements, presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements.

B8. The Board also considered whether this Statement should address other sources of risk such as cyber risks and environmental, social, and governance risks, as suggested by some respondents to the Exposure Draft. The Board concluded that although those sources of risk may warrant future investigation, they are outside the scope of the project that led to this Statement. In addition, the Board considered whether the scope of this Statement should broadly exclude certain events—such as possible effects of acts of God, war, or sudden catastrophes—as was done in FASB Codification Topic 275. Ultimately, the Board decided that certain concentrations or constraints sufficiently limit the scope of this Statement and that adding broad scope exclusions may result in unintentionally omitting the disclosure of certain risks that otherwise would fall within the scope of this Statement.

Certain Concentrations or Constraints

B9. The Board concluded that certain concentrations or constraints may limit a government's ability to acquire resources or control spending. The Board considered an alternative term to *control spending,* such as *flexibility in managing expenses,* as suggested by some respondents to the Exposure Draft. However, the Board also concluded that *control spending* more accurately describes the risk resulting from a concentration or constraint. In particular, the Board believes that the risk as it relates to spending is that a government would be unable to either spend as planned or reduce or avoid spending. In addition, the Board believes that *resources* and *spending* are more suitable than *revenue* and *expense* to convey the potential negative outcome associated with a concentration or constraint. Those potential negative outcomes could hinder a government's ability to borrow, satisfy its debt obligations, or provide services, which could include capital outlays. The Board noted that the transactions (or planned transactions that do not occur) related to those outcomes are not always *revenues* or *expenses.*

Certain concentrations

B10. The Board concluded that a concentration in the scope of this Statement is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. The Board also concluded that a *lack of diversity* refers to an aspect of a significant inflow of resources or outflow of resources and, specifically, the composition of that aspect. For example, a sales tax revenue generally includes several aspects: the various retail businesses that exist in the government's jurisdiction, which are the source of underlying exchange transactions; the volume and amounts of exchange transactions at those retail businesses; and the sales tax rate. If the retail industry at a shopping mall accounts for a large portion of the exchange transactions from which a local government's significant sales tax revenue is derived, the local government's composition of resource providers for sales taxes may have a lack of diversity (a concentration).

B11. In addition, the Board concluded that the identification of a concentration is a matter of professional judgment and is based on both qualitative and quantitative factors. The examples in paragraph 5 are neither inclusive of all

types of concentrations for all types of governments nor prescriptive of the types of concentrations in the scope of this Statement. The examples are intended to clarify the description of concentrations in the context of the governmental environment.

Certain constraints

B12. Governments commonly are subject to certain constraints that either are imposed by external parties or are self-imposed. Constraints on a government's ability to acquire resources include, but are not limited to, those imposed by creditors, grantors, or contributors; enabling legislation; and statutory or constitutional limitations such as caps on the imposition of property taxes or on the total amount of outstanding debt. A government's ability to control spending may be adversely affected by constraints on the type and amount of costs that can be incurred. For example, certain debt covenants may stipulate the level of spending relative to pledged revenue. 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. Similar to the discussion in paragraph B11, the Board noted that the examples in paragraph 6 are neither inclusive of all types of constraints for all types of governments nor prescriptive of the types of constraints in the scope of this Statement. Those examples are intended to help clarify the description of constraints in the context of the governmental environment.

B13. The Board considered whether a government could place constraints, as defined in this Statement, on itself. Some respondents to the Exposure Draft indicated that constraints addressed by this Statement should be limited to those imposed by external parties and should not include constraints imposed by formal action of a government's own highest level of decision-making authority. Similar to the conclusions reached in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* for committed fund balances, the Board concluded that a constraint that is self-imposed by a government's highest level of decision-making authority can expose the government to risk comparable to a risk resulting from a constraint imposed by an external party, though perhaps not as difficult to mitigate.

Disclosure Criteria

B14. Consistent with the approach for its scope, as described in paragraphs B2 and B3, this Statement establishes disclosure criteria to focus the information disclosed about risks faced by a government on those circumstances that make it vulnerable to a heightened possibility of loss or harm. In the absence of such criteria, the Board concluded that the usefulness of the information disclosed may be diminished because the disclosure could occur too early (potentially resulting in disclosures of risks that never come to fruition) or too late (thereby failing to disclose the warning before the loss or harm has occurred). In both cases, the Board believes that the resulting disclosures would not be sufficiently beneficial because it may be challenging for users to identify which risks to utilize in their analyses for making decisions or assessing accountability. The Board concluded that the disclosure of information that is essential to those analyses is best achieved by specifying criteria related to (a) the existence of a concentration or constraint, (b) a judgment that the government is vulnerable to loss or harm (an impact) because of the concentration or constraint, (c) the magnitude of that potential impact, (d) an event or events associated with the concentration or constraint that could cause the impact, and (e) the time frame during which such an event or events have occurred, have begun to occur, or are more likely than not to begin to occur.

Level of Detail for the Assessment of the Disclosure Criteria

B15. The Exposure Draft proposed that the information required to be disclosed generally be for the primary government. Additionally, if a concentration or constraint was specific to a reporting unit relative to other reporting units and had a substantial effect[4] on that reporting unit but not on the primary government, the Board proposed that the government apply the disclosure criteria and disclose the required information related to that reporting unit. Paragraphs 31 and 32 of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* address concepts regarding reporting units. Reporting units are the primary construct for the presentation of information in governmental financial statements (that is, the group of activities covered by the financial statements) and may be a governmental unit, part of a governmental unit, or one or more governmental units and their component units. Authoritative guidance, includ-

[4]The term *effect,* as used in the Exposure Draft, was modified to *impact* in this Statement. Subsequent to this instance, throughout the Basis for Conclusions, the term *impact* is used.

ing Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* specifies the reporting units (including the primary government reporting unit) that should be presented in basic financial statements and states that notes to financial statements should focus on those reporting units. Some respondents to the Exposure Draft expressed concerns about the level of detail proposed.

B16. Some of those respondents believe that the disclosure criteria and the information required to be disclosed should only relate to the primary government, while other respondents agreed with the notion that the disclosure criteria assessment and information to be disclosed should correspond to individual reporting units in certain circumstances. The Board concluded that the disclosure criteria are generally grounded in the context of the primary government because, in many instances, although a risk may originate from the activities accounted for in a particular reporting unit, the potential harm resulting from that risk may be experienced by other reporting units and, for that reason, a government generally manages risks from a primary government perspective. However, the Board considered circumstances in which concentrations or constraints originate from activities that are accounted for in a specific reporting unit and for which the vulnerability to the risk of harm only affects that reporting unit (and therefore may not represent a vulnerability to the risk of harm for the primary government). The Board concluded that some risks associated with concentrations or constraints are isolated to individual reporting units that have a risk profile that is different from the risk profile of the primary government, and information about those risks is essential to users' analyses for making decisions and assessing accountability.

B17. The Board concluded that a prevalent circumstance in which a reporting unit has a risk profile that is different from the risk profile of the primary government occurs when a reporting unit reports a liability for bonds or other debt instruments for which a specific revenue stream is pledged in support of that debt (revenue debt). The Board considered two alternatives to describe the additional assessment and disclosure of information related to revenue debt. The first alternative was to utilize the existing guidance for segments, as provided in Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus.* However, the Board decided that the definition of a segment in that guidance was too limiting for the purposes of the risk disclosures required by this Statement, particularly because it required the revenue debt to be accounted for in an enterprise fund and would therefore exclude those circumstances in which revenue debt is accounted for in a governmental activities reporting unit. As a

result, the Board concluded that the second alternative, which focuses on reporting units, is more suitable and that, in addition to an assessment of the disclosure criteria for the primary government reporting unit, if a government has a reporting unit that reports a liability for revenue debt, the government also should assess the disclosure criteria for that specific reporting unit. The Board believes that by specifying the most prevalent circumstance in which a reporting unit has a risk profile that is different from the primary government and only requiring an additional assessment of the disclosure criteria for that circumstance, the application of the guidance will be less costly regarding the reporting unit aspect but still provide essential information to users of government financial statements.

Awareness of the Existence of a Concentration or Constraint

B18. The Board concluded that it would not be overly burdensome or costly for a government to obtain knowledge of its concentrations or constraints for purposes of assessing the disclosure criteria and presenting the information required by this Statement. The Board based this conclusion on its belief that a government's existing concentrations or constraints are generally known by that government because those conditions are a fundamental aspect of its general financial risk profile. Accordingly, the consideration of such conditions is included in many aspects of the financial policies and decisions that the management of a government undertakes in its normal course of operations. In addition, the Board concluded that the time frame during which a government may become aware of a concentration or constraint should extend to the date its financial statements are issued. The Board believes that information disclosed about a government's risks is more relevant the longer the time frame during which a government obtains knowledge of all of its concentrations or constraints, including those that may arise between the financial statement date and the date the financial statements are issued.

The Risk of a Substantial Impact

B19. Consistent with the general objective of the disclosure criteria to focus the information disclosed about risks faced by a government on those circumstances that make it vulnerable to a heightened possibility of loss or harm, the Board proposed in the Exposure Draft a disclosure criterion that it be at least reasonably possible that within three years of the financial statement date, the event associated with the concentration or constraint will cause there to be a substantial impact on the government's ability to (a) continue to provide ser-

vices at the level provided in the current reporting period or (b) meet its obligations as they come due. Respondents expressed various concerns related to the proposed assessments of an event associated with the concentration or constraint (see paragraphs B27–B33), the substantial impact that would result from the event, and the three-year time frame associated with that substantial impact.

B20. Respondent concerns about an assessment of the potential substantial impact caused by an event primarily focused on perceived difficulties in assessing a government's service levels and the suitability of a government's assessments of the likelihood of future impacts of events in general. Respondents expressed concerns about the proposal that centered on (a) a government's judgments of what constitutes "services at the level provided in the current reporting period," (b) differentiating between normal and routine modifications to service levels from impacts related to events associated with concentrations or constraints, and (c) difficulties in formulating and auditing a government's judgments related to impacts on future service levels. Concerns also were expressed by respondents to the Exposure Draft about the aspect of the criterion related to the likelihood that a substantial impact caused by an event would be at least reasonably possible to occur. Respondents questioned the suitability of assessing the likelihood of impacts, the auditability of such judgments, and the interplay of such an assessment with the likelihood judgment required when considering potential events. (See paragraph B30.) Lastly, whereas some respondents agreed with the three-year time frame proposed in the Exposure Draft related to the timing of the substantial impact that will be caused by an event associated with a concentration or constraint, other respondents expressed concerns about the assessment of the timing related to a future impact. In those respondents' views, assessing the timing of the future impact of an event may lead to speculative or unreliable disclosures. Some respondents suggested that if that aspect of the criterion was carried forward, the time frame associated with the substantial impact should (1) be reduced from three years to one, (2) be as of the date of the auditor's report, or (3) not be addressed at all in the disclosure criteria.

B21. The Board agreed with the concerns expressed by respondents and concluded that the proposed disclosure criterion with respect to the description of the substantial impact should be modified. The modification removed the aspects of service levels and obligations in the description of the substantial impact to instead focus on the general concept of a vulnerability to the risk of a substantial impact. The Board concluded that the term *impact* broadly conveys a financially disruptive effect on the normal functioning of a government. The

Board believes that a government's conclusion that a vulnerability due to a concentration or constraint exists prior to the issuance of the financial statements reduces the predictability concerns raised by respondents regarding the description of the substantial impact criterion in the Exposure Draft. The Board also believes that the modified criterion enhances the consistency, comparability, and reliability related to the information required to be disclosed and continues to meet its objective of focusing the disclosures on those circumstances that make the government vulnerable to a heightened possibility of loss or harm.

B22. The Board believes that the phrase *vulnerable to the risk of a substantial impact* conveys a degree of risk that is more than only the existence of a concentration or constraint. For example, a state may establish a constraint related to the level of outstanding general obligation debt that local governments in its jurisdiction may incur, which limits those governments' ability to acquire resources through borrowing. A particular local government is subject to this constraint and because it has little or no general obligation debt outstanding, it is not approaching the limit of outstanding debt represented by the constraint. Therefore, the constraint does not make the government vulnerable to the risk of a substantial impact.

B23. A threshold for the *magnitude* of the impact that could be caused by an event or events associated with the concentration or constraint is included in the criteria for disclosing information required by this Statement. The Board concluded that a more stringent criterion than the general requirement of materiality (or significance) was needed in order to meet its objective of focusing the information disclosed about risks faced by a government on those circumstances that make it vulnerable to a heightened possibility of loss or harm. Existing guidance includes a reference to a magnitude of *substantial,* which the Board believes denotes a degree of magnitude greater than *significant.* For example, with respect to special revenue funds, paragraph 31 of Statement 54 states that "the restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund . . ." (footnote reference omitted). Some respondents to the Exposure Draft suggested that the term *substantial* be clarified or modified. The Board believes that determinations that relate to the magnitude of impacts are subject to the professional judgment of governments and should be decided by applying that judgment to both quantitative and qualitative factors. Furthermore, governments have experience with the term *substantial* in their application of existing guidance and, as such, are able to utilize it in their evaluation of the criteria in this Statement.

B24. With respect to the time frame of a substantial impact, the Board believes that a substantial impact could extend beyond the time frame within which the event or events addressed in paragraph 7c are more likely than not to begin to occur. (See paragraph B32.) The Board noted that, particularly in the governmental environment, a substantial impact caused by some events may not manifest immediately. For example, the loss of a major property taxpayer may not result in a loss of revenue until the property is next assessed and a tax based on that assessment is imposed by the government. Additionally, the Board concluded that the disclosures required by this Statement generally are intended to be made before the ramifications of the event or events are experienced. For example, a description of the vulnerability to a risk associated with a state-imposed debt limit (a constraint) and whether the limit has been or soon will be reached, coupled with an event or events that may require additional borrowing, would be essential information to a user of government financial statements.

B25. In its consideration of respondents' concerns about the challenges regarding the time frame of potential substantial impacts caused by an event or events, the Board agreed that the three-year time frame proposed in the Exposure Draft would be challenging and that governments' judgments about the impacts of events (particularly events that had not yet begun to occur) may result in the disclosure of information that was not consistent, comparable, or reliable. The Board considered shortening the time frame of potential substantial impacts caused by an event or events in the disclosure criterion but concluded that, due to circumstances that exist in the governmental environment in which impacts of events develop over an extended period, a shorter time frame may unfavorably limit the disclosure of essential information. For those reasons, the Board concluded that there should be no time frame in the disclosure criterion related to a potential substantial impact caused by an event or events associated with a concentration or constraint. In other words, the Board concluded that the emphasis of the criterion for substantial impact in paragraph 7 is on a government's vulnerability to the risk of a substantial impact due to a heightened possibility of loss or harm because of an event or events associated with existing concentrations or constraints, rather than on an assessment that a substantial impact could occur within a specified time frame in the future.

An Event or Events Associated with a Concentration or Constraint

B26. The disclosure criteria established by this Statement result in focusing the information to be disclosed on those circumstances in which an event or events associated with a government's 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 date the financial statements are issued. Those criteria are intended to identify the risks that are most timely and relevant to disclose in order for the information about the risks to be essential to a user's decision making or assessment of accountability.

B27. Some respondents to the Exposure Draft expressed concerns about the meaning of the term *event.* Other respondents questioned (a) the events that should be considered for circumstances in which there are multiple events associated with a concentration or constraint and (b) the level of effort that is required to identify potential events associated with a concentration or constraint. The Board agrees that the term *event* is broad, but it is used extensively in the authoritative literature and Appendix C is intended to illustrate the nature of an event within the context of this Statement. As a result, the Board concluded that the term *event* should not be defined specifically.

B28. In addition, the Board noted that some events may inform a government's assessment of the likelihood of the occurrence of an additional event that could cause a substantial impact. For example, consider a risk associated with the departure of a taxpayer from whom a large portion of a government's tax revenue is received (a concentration). That taxpayer may first enter negotiations regarding its relocation, then make a public announcement, then commence shutting down its operations, and ultimately move away from a government's jurisdiction. Some stakeholders questioned which event in this example should be assessed in the context of the criterion in paragraph 7c. The Board generally believes that the event referenced in the scenario above that could cause a substantial impact to the government was the taxpayer's departure from its jurisdiction, which began to occur when the taxpayer commenced the shutdown of its operations. The other events, such as the relocation negotiations and the public announcement, inform the government's judgment about the likelihood of the taxpayer's departure. The Board also believes that risks that meet the criteria for disclosure could result from multiple events; for example, in circumstances in which a government has a concentration related to a specific industry that makes it vulnerable to the risk of a substantial impact,

and first one, then another, and then another business related to that industry closes. To address respondent concerns about the term *event,* the Board concluded that the phrase *or events* should be added to *event* in this Statement.

B29. The disclosure criterion related to an event associated with the concentration or constraint proposed in the Exposure Draft required governments to identify an event that will cause a substantial impact. In acknowledging challenges related to the identification of an event, the Board modified the Exposure Draft proposal so that instead of identifying an event that *will* cause a substantial impact, the disclosure criteria in this Statement require governments to identify an event or events that *could* cause a substantial impact. The Board concluded that *could* was a more suitable term to describe events to be identified by governments because it conveys less certainty than *will.* Furthermore, the Board believes that governments should not be required to conduct an extensive search for a wide range of potential events related to each of the concentrations or constraints that exist. Rather, the Board believes that governments should disclose information about risks when they become aware that events or potential events related to existing concentrations or constraints could cause a substantial impact. Lastly, the Board concluded that the challenges to auditors regarding the completeness of a government's identification of potential events associated with concentrations or constraints are not unique to this Statement, as auditors are generally experienced with the representations of the management of a government about other accounting and financial reporting issues, such as subsequent events, pending litigation, or related parties.

B30. The GASB's authoritative literature includes several terms that denote degrees of likelihood that governments are required to evaluate in various circumstances, including *remote, reasonably possible, more likely than not, probable,* and *reasonably certain.* The Board considered those existing probability thresholds in the context of the likelihood that an event or events associated with a concentration or constraint that could cause a substantial impact will occur. The Board considered but rejected certain of those thresholds. The Board concluded that a *remote* degree of likelihood would not adequately confine disclosures to those essential to users of government financial statements. The Board also concluded that, at the other end of the spectrum, a threshold of *probable* (defined in paragraph 55a of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as "likely to occur") or *reasonably certain* would produce disclosures that would not encompass all the risks included in the scope of this Statement that are essential to users. The term *reasonably*

possible is defined in paragraph 55b of Statement 10 as "more than remote but less than likely," and the Board believes that the *reasonably possible* threshold could result in disclosure early enough to effectively provide essential information. However, the Board concluded that, consistent with the concerns of some respondents to the Exposure Draft, *reasonably possible* may be too low of a threshold to adequately limit the circumstances that would prompt a disclosure to those for which the event or events may ultimately occur and that make the government vulnerable to a heightened possibility of loss or harm.

B31. The term *more likely than not* is defined in footnote 2 of Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* as "a likelihood of more than 50 percent." Some respondents to the Exposure Draft believe that a disadvantage of the quantitative definition of *more likely than not* relates to making and auditing a judgment that is overly precise. The Board acknowledges that assessing the criterion for the likelihood of an event or events occurring or beginning to occur will involve professional judgment by the government. However, the Board noted that governments exercise their professional judgment with respect to *more likely than not* as part of applying existing generally accepted accounting principles. Therefore, the Board believes that governments would be able to assess that threshold. Furthermore, the Board concluded that for purposes of determining the likelihood of the occurrence of an event or events associated with a concentration or constraint, a criterion of *more likely than not* produces a favorable balance between screening out events that may not ever materialize and providing information that is essential to financial statement users. In particular, the Board believes that the *more likely than not* threshold is the most suitable expression of the probability for the occurrence of an event or events that will elicit disclosures that focus the information disclosed about risks on those circumstances that make the government vulnerable to a heightened possibility of loss or harm.

B32. This Statement establishes a disclosure criterion for the time frame for the occurrence (or beginning of the occurrence) of an event or events associated with a concentration or constraint that could cause a substantial impact. That time frame is within 12 months of the date a government's financial statements are issued. The Board concluded that this time frame was suitable by considering the going concern guidance in paragraphs 16–19 of Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* which addresses the consideration of pertinent conditions and events related to a government's ability to continue as a going concern for 12 months beyond the financial statement date or shortly thereafter (for example, 3 months). Consistent with Statement 56, the time

frame proposed in the Exposure Draft incorporated the "shortly thereafter" provision. However, respondents to the Exposure Draft expressed concerns about the ambiguity of the criterion related to when an event is more likely than not to begin to occur and suggested that it be a fixed period of time. The Board agreed with those respondents and removed the "shortly thereafter" provision to address that concern. In addition, the Board considered but disagreed with those respondents to the Exposure Draft who believe a time frame of two or more years is suitable because the level of speculation involved in judgments that a government would be required to make with a longer time frame could result in the disclosure of risks that have reduced reliability. Lastly, and consistent with its conclusion about a government's awareness of the existence of a concentration or constraint in paragraph 7a (see paragraph B18), the Board concluded that the beginning of the 12-month time frame should be when the government's financial statements are issued, rather than the financial statement date, as was proposed in the Exposure Draft.

B33. The Board considered the starting point for the time frame of events associated with the concentration or constraint that could cause the substantial impact. The Board believes that an event or events that had occurred or had begun to occur prior to the date the financial statements were issued may have a substantial impact that has not yet been observed. Furthermore, the Board noted that, particularly in the governmental environment, some events may unfold over time rather than at a point in time and, consequently, may begin in one period and conclude in a subsequent period. Therefore, the Board concluded that events that had occurred or had begun to occur prior to the date the financial statements were issued should not be excluded from the disclosure criteria—in other words, the Board concluded that events that otherwise meet the criterion in paragraph 7c may have occurred or have begun to occur at any time in the past.

Mitigation and the Disclosure Criteria

B34. The Board noted that governments often take actions to mitigate the risks they face. In the context of the risks addressed by this Statement, governments may take mitigating actions related to concentrations or constraints, events associated with those concentrations or constraints, or other factors that contribute to a government's vulnerability to the risk of a substantial impact. This Statement limits a government's consideration of mitigation in assessing the disclosure criteria only to actions that had occurred prior to the issuance of the financial statements. If those mitigation actions cause any of the disclosure

criteria to no longer be met, none of the note disclosures in paragraph 9 of this Statement are required. Some respondents to the Exposure Draft believe that mitigation actions that were planned but had not yet commenced also should be relevant to a government's assessment of the disclosure criteria. The Board disagreed with those respondents because it believes some mitigation plans may not ultimately occur. If a government were to consider mitigation efforts that are planned but have not yet occurred in its assessment of the disclosure criteria, essential information about some risks in the scope of this Statement may not be disclosed. Furthermore, the Board believes that auditors of government financial statements would encounter challenges in verifying planned mitigation in governments' assessment of the disclosure criteria in this Statement.

General Disclosure Principles

B35. This Statement establishes principles to guide the disclosure of information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The principles relate to (a) comparative financial statements, (b) the information required to be disclosed by this Statement in relation to note disclosures required by other authoritative guidance, (c) the level of detail for information required by this Statement to be presented in notes to financial statements, and (d) the application of the requirements of this Statement to discretely presented component units.

B36. As part of its development of the disclosure principles for the risks in the scope of this Statement, the Board considered the points in time at which information should (a) begin to be included and (b) no longer be included in notes to financial statements. The Board believes that those determinations should be based on the professional judgment that governments apply to the facts and circumstances related to a particular risk in their assessment of the disclosure criteria (paragraphs B14–B34). The Board believes that risk is the combination of (1) the existence of a concentration or constraint that makes a government vulnerable to a substantial impact and (2) a judgment that an event or events associated with the concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The concept of risk, for purposes of this Statement, is grounded in the

possibility of loss or harm, which is a fundamentally forward-looking concept. For that reason, the Board does not intend the disclosures resulting from this guidance to address substantial impacts that have already been experienced by a government.

B37. The Board considered how the presentation of comparative financial statements affects the information required to be disclosed by this Statement. The Board believes that the information required to be disclosed by this Statement should relate to circumstances in effect as of the date the financial statements are issued, as identified by the disclosure criteria. Therefore, the Board concluded that governments should not repeat prior year disclosures; instead, they should apply the disclosure criteria to circumstances in effect as of the date the current year financial statements are issued, and if those circumstances meet the disclosure criteria, the information required to be disclosed by paragraph 9 should be as of the date the current year financial statements are issued.

B38. The Board also considered feedback from respondents to the Exposure Draft related to a perceived overlap between the guidance included in the proposal and (a) existing authoritative guidance or (b) other projects on the Board's technical agenda. The Board believes that, in certain circumstances, the disclosure requirements of this Statement may supplement note disclosures of other authoritative guidance. The Board concluded that the disclosure information required by this Statement should be combined with the note disclosures required by other authoritative guidance to avoid unnecessary duplication.

B39. Regarding the level of detail for information required by this Statement to be presented in notes to financial statements, the Board noted that paragraph 15 of Concepts Statement 7 states, "Notes to financial statements should provide information that corresponds to the reporting units presented in the financial statements." The Board considered whether characteristics of the disclosures required by this Statement justify a level of detail different from the reporting units presented in the financial statements. The Board concluded that the criteria for disclosing information about risks, as provided in paragraph 7, is relevant to the level of detail for presenting the corresponding information required by this Statement. Because the provisions in paragraph 7 specify the reporting units for which the criteria should be assessed, the Board concluded that the information required to be disclosed should be presented on that same basis. Furthermore, the Board concluded that the clarification of the reporting unit concept in paragraph B38 of Concepts Statement 7, which states

that ". . . in circumstances in which the information is the same for more than one reporting unit, the information could be combined to avoid unnecessary duplication," is particularly relevant to the topic of risks because, by nature, risks may permeate a government's reporting units. For that reason, the Board concluded that, in addition to assessing the disclosure criteria for those reporting units that report a liability for revenue debt, the assessment of the disclosure criteria should be for the primary government reporting unit. As a result, the Board concluded that this Statement should include a principle to provide that information that is the same for more than one reporting unit should be combined in a manner that avoids unnecessary duplication. Finally, some respondents expressed concerns about whether this Statement applies to discretely presented component units. To address that concern, this Statement explicitly references the provision in paragraph 63 of Statement 14 regarding the application of professional judgment when considering discretely presented component unit disclosures.

Notes to Financial Statements

B40. The Board considered whether disclosures resulting from this Statement would provide essential information if only the criteria for disclosures were prescribed and the contents of the disclosures were left to the professional judgment of governments. That approach was considered because of the variety of types of risk faced by governments, the specific facts and circumstances associated with each of those types of risk, and the Board's desire to reduce the possibility of boilerplate disclosures, which would not be essential to users in their analyses for making decisions or assessing accountability. (See paragraph B5.) However, the Board concluded that that approach may not provide essential information related to a government's risks to enable users of financial statements to understand the nature of each concentration or constraint and the government's vulnerability to the risk of a substantial impact. Therefore, the Board concluded that this Statement should specify the information to be disclosed about those risks that meet certain criteria (as discussed in paragraphs B14–B33). In order to address the specific facts and circumstances and variety of types of risk faced by governments, this Statement requires governments to provide the information required to be disclosed in sufficient detail to enable users of government financial statements to understand the nature of the circumstances disclosed and the related vulnerability to the risk of a substantial impact associated with the concentration or constraint.

The nonauthoritative illustrative disclosures included in Appendix C of this Statement demonstrate the degree of detail the Board believes is sufficient to describe the circumstances and vulnerability due to the concentration or constraint.

B41. In its development of the note disclosure requirements of this Statement, the Board considered the feedback from interviews with users of government financial statements to inform its conclusions related to the conceptual criteria for essentiality, as provided in Concepts Statement 7. The term *essential* conveys the degree of importance that information contained in notes to financial statements should possess, and the Board considered the two characteristics of essentiality in making its determination: (a) the information is expected to have a meaningful effect on users' analyses for making decisions or assessing the accountability of a government and (b) a breadth or depth of users are expected to utilize the information in those decisions or assessments. After considering the feedback received from user interviews and respondents to the Exposure Draft, the Board concluded that the information required to be disclosed by this Statement possesses those characteristics and, therefore, is essential.

B42. This Statement requires governments to provide a description of concentrations or constraints (see paragraphs B9–B13) if the risk related to those conditions meets the disclosure criteria provided in paragraph 7. Governments should provide information about concentrations or constraints in sufficient detail to enable users of government financial statements to understand the general nature of those conditions.

B43. Governments also are required to disclose a description of (a) 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 and (b) actions taken by the government to mitigate the risk. Those descriptions should include detail that is sufficient to enable users of government financial statements to understand the general nature of those events and actions as they relate to the government's vulnerability to the risk of a substantial impact associated with the concentration or constraint.

B44. The Exposure Draft proposed additional information to be disclosed about the risks associated with concentrations or constraints. It proposed that governments provide information about (a) events that were associated with the concentration or constraint and that were more likely than not to begin to occur within 12 months of the financial statement date and (b) a government's

judgment that it is reasonably possible that within 3 years of the financial statement date, the event will cause there to be a substantial impact on the government's ability to (1) continue to provide services at the level provided in the current reporting period or (2) meet its obligations as they come due. Respondents to the Exposure Draft expressed concerns about requirements to disclose information about events that have not yet occurred and impacts that have not yet been experienced. As discussed in paragraph B21, the Board concluded that the disclosure criteria related to the substantial impact associated with a vulnerability caused by a concentration or constraint should be modified for aspects related to continuing to provide services and meet obligations. The Board concluded that a more general description of a vulnerability to the risk of a substantial impact was suitable. Furthermore, in its agreement with respondent concerns, the Board noted that paragraph 10b of Concepts Statement 7 states that one of the types of information that is not appropriate for notes is "predictions about the effects of future events on future financial position." Therefore, the Board concluded that the disclosures required by this Statement should include information about events that had occurred or had begun to occur prior to the issuance of the financial statements in sufficient detail for a user to obtain an understanding of a government's vulnerability to the risk of a substantial impact. The Board believes that information related to (a) a description of the concentration or constraint that makes the government vulnerable to a substantial impact and (b) a description of an event or events that *have occurred* or *have begun to occur* associated with a concentration or constraint is not the type of information identified in paragraph 10 of Concepts Statement 7 and, thus, is appropriate for notes to financial statements.

B45. With respect to the Exposure Draft proposal to disclose information about actions a government had taken prior to the issuance of the financial statements to mitigate the substantial impact, some respondents to the Exposure Draft expressed the view that if a government anticipates that mitigation plans will alleviate some of the risk, those plans also should be required to be disclosed. However, the Board believes that disclosing mitigation actions that a government had not yet taken prior to the issuance of its financial statements may constitute a prediction about the effects of future events on a government's future financial position. As discussed in paragraph B44, such information is identified in paragraph 10 of Concepts Statement 7 as being inappropriate for inclusion in notes to financial statements. Therefore, the Board concluded that this Statement should not require the disclosure of planned mitigation efforts.

B46. Some respondents to the Exposure Draft indicated that the information required to be disclosed by this Statement is more suitable for Management's Discussion and Analysis or other sections of a government's annual comprehensive financial report. The Board believes that the information required to be disclosed by this Statement meets the conceptual criteria for disclosure in notes to financial statements, as provided in Concepts Statement 7. In addition, paragraph 14 of Concepts Statement 7 states that "Information that meets the criteria for notes to financial statements should be reported in that manner. Presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements." Therefore, the Board believes that the inclusion of information required by this Statement as either required supplementary information or supplementary information would conflict with its conceptual framework.

Considerations Related to Benefits and Costs

B47. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B48. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B49. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the

value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes the assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B50. Respondents to the Exposure Draft and users who participated in interviews indicated that they would benefit from the information resulting from this Statement. Such information would be incorporated into their assessments of a government's financial condition and flexibility. After considering that input, the Board concluded that disclosure of information about risks within the scope of this Statement will benefit users because (a) a variety of types of users would utilize the information in their analyses for making decisions or assessing accountability and (b) that information is expected to have a meaningful effect on those analyses.

B51. The Board also considered costs specific to preparers and auditors. Some respondents to the Exposure Draft raised concerns about costs associated with the proposed disclosure criteria and with the information proposed to be disclosed, which are discussed throughout this appendix as part of the Board's conclusions related to those requirements. As discussed in paragraphs B14–B46, the Board revised aspects of the disclosure criteria and requirements in response to stakeholder feedback, including feedback related to respondents' views about the perceived cost of implementing the requirements of a final Statement. The Board acknowledges that although there are costs associated with providing the required information, those costs should not be overly burdensome. The Board believes that a concentration or constraint within the scope of this Statement generally is already known to a government's management. Additionally, some governments already report similar information for other purposes. The Board believes the most significant aspect of providing the required information involves a government making professional judgments about the disclosure criteria regarding (a) its vulnerability to a substantial impact and (b) the timing and likelihood of events. The Board does not believe making those determinations would be overly burdensome. Furthermore, the Board noted that this Statement indicates that the information required should be combined in certain circumstances to avoid unnecessary duplication. For those reasons, the Board believes the expected benefits of the information resulting from this Statement justify its perceived costs.

Effective Date and Transition

B52. The provisions of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. In considering the changes introduced in this Statement, the Board concluded that the effective date allows adequate time for financial statement preparers to plan for the implementation of this Statement. Some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

B53. With respect to transition, the Board concluded that it is appropriate to require prospective application of the provisions of this Statement. The reasons for that decision are the same as those discussed in paragraph B37 regarding the requirement that the disclosures be made only for the current year in comparative financial statements.

Dissent

B54. Ms. Reck dissents from the issuance of this Statement because she believes it will not provide sufficient information to the users of government financial statements for them to make decisions related to the risks and uncertainties facing governments. As indicated in paragraph 1, the objective of this Statement is to provide users with information about risks related to certain concentrations or constraints that a user might assess as making the government subject to certain vulnerabilities. Users' responses to the Exposure Draft have indicated that the objective of providing such information would be useful in making decisions about or assessing the accountability of the government.

B55. As written, this Statement includes disclosure criteria that limit the information disclosed by requiring that an event or events that could cause a substantial impact be associated with a concentration or constraint before disclosure of the concentration or constraint occurs. As indicated by paragraph 65 of Concepts Statement No. 1, *Objectives of Financial Reporting,* information that can make a difference in a user's assessment of a problem, condition, or event is relevant, and relevance is one of the characteristics of effective financial reporting; Ms. Reck believes that by limiting the information provided, the disclosure criteria are, in effect, reducing the relevance of the information.

B56. Ms. Reck believes the effect of the disclosure criteria as defined in paragraph 7 of this Statement is twofold. By indicating that a concentration or constraint need not be reported unless an event or events associated with the

concentration or constraint could cause a substantial impact, the Board is decreasing transparency and limiting users' ability to make the decision as to whether the totality of the concentrations or constraints to which a government is subject affects their decision about the risks and uncertainties associated with that government. Additionally, the criteria put governments in the difficult position of having to make judgments about the likelihood that the event or events that could have a substantial impact may occur in the time period specified, which requires governments to determine what risk and uncertainty information is useful. Ms. Reck believes that this will considerably reduce the disclosures by governments, impacting what users have available to make decisions about the risks and uncertainties facing a government.

B57. Additionally, Ms. Reck believes that narrowing the scope by adding the disclosure criteria in paragraph 7 will likely make the information less comparable given the uniqueness of events to each government.

Appendix C

ILLUSTRATIONS

C1. This appendix illustrates certain disclosure requirements of this Statement. The facts assumed are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. No inference about determining materiality should be drawn from these illustrations.

Illustration 1—Concentration: Financial Resource Provider and Major Enterprise Fund with Revenue Debt

Facts and Assumptions

Pilot City's Airport Fund—a major enterprise fund that accounts for the City's airport operations—reports a liability for revenue debt outstanding. Charges for services, such as landing fees and terminal rentals paid by the airlines that use the airport, are a significant revenue of the Airport Fund. In the bond indenture for the Airport Fund's revenue bonds, the charges for services are identified as the sole source of repayment for those bonds, which funded the construction of certain improvements to the airport. Model Airways—the airport's largest airline customer—accounts for XX percent of the Airport Fund's revenue generated from charges for services.

During the City's fiscal year ended June 30, 20X0, Model Airways notified the City that due to falling demand from the airline's customers, it will terminate its lease and discontinue service to the City's airport by December 31, 20X0. The City's financial statements as of June 30, 20X0, were issued on October 15, 20X0. The City is in the process of developing plans to attract new airline customers to the airport.

Conclusions

- *Assessment of disclosure criteria:* In addition to assessing the disclosure criteria for the primary government reporting unit, the City assessed the disclosure criteria for the Airport Fund because it reports a liability for revenue debt.
- *Concentration:* XX percent of the Airport Fund's charges for services are associated with a single airline customer. Charges for services are a significant revenue of the Airport Fund.
- *Vulnerability to the risk of a substantial impact:* Management of the City has determined that the concentration of resources provided by a single airline (Model Airways) makes the Airport Fund vulnerable to the risk of a substantial impact.
- *Occurrence of an event or events and their timing:* An event associated with the concentration occurred when Model Airways notified the City that it will not renew its lease. That event is the beginning of the airline's discontinuation of services to the Airport, which the management of the City has determined could cause a substantial impact to the Airport Fund. The notification event had occurred prior to the date the financial statements were issued so a description of it is included in the disclosure.
- *Mitigant:* The City is planning to implement certain measures to attract new airline customers to mitigate potential losses from a discontinuation of services related to Model Airways. Because those mitigating actions had not occurred prior to the issuance of the financial statements, a description is not included in the disclosure.

Illustrative Disclosure

Note X. Concentration of Financial Resource Provider

The Airport Fund accounts for the City's airport operations and reports $X million of revenue bonds outstanding on June 30, 20X0. The bond indentures state that the revenue generated by airport operations is pledged as the sole source of repayment for the bonds. XX percent of the Airport Fund's revenues are associated with a single airline customer who has notified the City that it plans to terminate its lease and discontinue service to the City's airport by December 31, 20X0. A loss of revenue from that airline could adversely affect the Airport Fund.

Illustration 2—Concentration: Workforce Covered by a Collective Bargaining Agreement

Facts and Assumptions

As of December 31, 20X1, all transportation workers employed by the Sample Transportation District are members of the State Association of Transport Workers, a public employee union that collectively bargains with the District on behalf of those employees. The existing five-year labor contract expires on June 30, 20X2, and negotiations on a new contract have been contentious and ongoing since September 20X1. The transportation workers are responsible for the day-to-day operations of the transit system, which provides bus, train, and subway services. The District's financial statements for the fiscal year ended December 31, 20X1, were issued on March 22, 20X2.

Conclusions

- *Assessment of disclosure criteria:* The criteria were assessed for the primary government reporting unit, and the District did not report revenue debt in any other reporting units.
- *Concentration:* All transportation workers employed by the District are subject to a collective bargaining agreement.
- *Vulnerability to the risk of a substantial impact:* Management of the District has determined that the labor concentration makes it vulnerable to the risk of a substantial impact because if the existing labor agreement lapses without a new agreement in place, the interruption of bus, train, and subway services that would result could cause a substantial financially disruptive effect on the normal functioning of the District.
- *Occurrence of an event or events and their timing:* Based on the ongoing and contentious negotiations, management of the District has determined that it is more likely than not that the existing labor agreement will expire on June 30, 20X2, without a replacement having been ratified—an event that could cause a substantial impact to the District. The labor contract expiration would be within 12 months of the date the current financial statements were issued but has not yet occurred. For this reason, information about the event is not included in the disclosure.
- *Mitigant:* None.

Illustrative Disclosure

Note X. Concentration of Workforce Covered by Collective Bargaining Agreement

The District depends on its workforce to deliver transportation services. All of the District's transportation workers are covered by a collective bargaining agreement with the State Association of Transport Workers that expires on June 30, 20X2, and a labor disruption that decreases bus, train, and subway services could disrupt the normal functioning of the District's operations.

Illustration 3—Constraint: Mandated Spending

Facts and Assumptions

Example Wastewater Authority provides sewer services to its citizens and businesses. The Authority (which is not part of the state's financial reporting entity) is subject to certain state environmental regulations, including those mandated by the State Department of Ecology, in order to maintain the permit to operate its wastewater treatment plant. The Authority's financial statements as of June 30, 20X1, were issued on October 13, 20X1.

In 20X0, the Department of Ecology proposed new regulations that, if finalized as is, the Authority would have to comply with by September 1, 20X6. Those regulations would require the reduction of the allowable level of certain pollutants in the treatment plant's effluent by one-third. As of June 30, 20X1, the effluent from the Authority's wastewater treatment plant contains close to the current allowable level of those pollutants.

Management has determined that complying with the new regulations by the deadline would substantially increase costs beginning in 20X3, including operating costs and debt service on the borrowing that would be necessary to upgrade the pollutant reduction capability of the plant. On November 1, 20X1, the Department of Ecology will announce the results of its review of public input and its final ruling on the adoption of the proposed regulations.

On September 12, 20X1, the Board approved the first of a series of user rate increases intended to provide resources related to improvements to the plant. The Board anticipates addressing any improvements required by the new regulations with a combination of grants that have not yet been awarded, revenue debt issuances, and a series of user rate increases.

Conclusions

- *Assessment of disclosure criteria:* The criteria were assessed for the primary government reporting unit, and the Authority did not report revenue debt in any other reporting units.
- *Constraint:* The Authority is subject to environmental regulations mandated by the Department of Ecology and is required to incur costs to conform.
- *Vulnerability to the risk of a substantial impact:* The Authority has determined that it is vulnerable to the risk of a substantial impact due to compliance costs associated with the new environmental regulations being considered by the Department of Ecology.
- *Occurrence of an event or events and their timing:* The Department of Ecology proposed new regulations that would require the Authority to reduce the level of certain pollutants in its treatment plant's effluent by one-third which, if adopted, could cause a substantial impact. The proposal of the regulations, in and of itself, does not cause a substantial impact. Instead, it informs the Authority's assessment of whether it is more likely than not that an event that could cause a substantial impact will occur or will begin to occur by October 13, 20X2 (12 months from the date the Authority's June 30, 20X1 financial statements were issued). The Authority has determined that it is more likely than not that the regulations will be adopted on November 1, 20X1—an event that could cause a substantial impact. The Department of Ecology's proposal had been presented prior to the issuance of the Authority's financial statements, and that proposal provides detail that will enable users of those financial statements to understand the nature of the circumstances being disclosed and the Authority's vulnerability to the risk of a substantial impact associated with the constraint; therefore, information about the proposal is included in the disclosure. However, because the regulations have not yet been adopted by the Department of Ecology, a description of that event is not included in the disclosure.
- *Mitigant:* The mitigation is planned, and the only action taken prior to the issuance of the financial statements was the Board's approval of the first rate increase in a series of planned user rate increases. Therefore, the Board's

approval of the first rate increase is disclosed. The Authority has determined that, although the approval of the first rate increase has occurred, the circumstances still meet the criteria for disclosure.

Illustrative Disclosure

Note X. Risk Due to Mandated Spending

The Authority's wastewater treatment operations are subject to environmental regulations established by the State Department of Ecology. The Department of Ecology proposed new regulations that would require reducing the allowable level of certain pollutants in the wastewater treatment plant's effluent by one-third. If adopted, the Authority would be responsible for complying with the regulations by modifying the plant at a substantial cost to its ratepayers by September 20X6.

On September 12, 20X1, the Board approved an increase in the rates charged to private and commercial customers to partially address improvements to the wastewater treatment plant aimed at reducing pollutants.

Illustration 4—Concentration: Employer

Facts and Assumptions

McFarland Air Force Base is a U.S. Air Force Base located in Example County. Over 2,000 military personnel and their families work and live at the Base, and an additional 850 civilians work at the Base. Relative to other employers in the County, the Base directly or indirectly disproportionately affects several significant revenues of the County, providing XX percent, YY percent, and ZZ percent of the County's tax resources for the years ending June 30, 20X3, 20X4, and 20X5, respectively. Those tax resources include payments in lieu of taxes (provided by the Base to the County) and sales and property taxes generated by the military personnel, civilian personnel, and surrounding businesses that serve the Base.

On December 1, 20X2, a commission established by the U.S. government to coordinate the Base Realignment and Closure (BRAC) process placed the Base on its list of possible military base realignments and closures. The County's financial statements for the fiscal year ended June 30, 20X3, were issued on November 25, 20X3.

During the subsequent fiscal year, the management of the County monitored the public hearings being conducted by the BRAC Commission. Information from those hearings, including decisions to remove other military bases from its list of possible closures, resulted in a heightened level of concern about the factors being considered by the BRAC Commission as they related to the Base. In 20X4, the County Commissioners began developing strategies related to various economic incentives to encourage the redevelopment of the Base for other purposes. The County's financial statements for the fiscal year ended June 30, 20X4, were issued on November 20, 20X4.

The BRAC Commission provided its recommendations to the U.S. Congress regarding military base realignments and closures on September 30, 20X5, including a recommendation that the Base be closed. On November 15, 20X5, the U.S. Congress approved the recommendations of the BRAC Commission and directed the U.S. Department of Defense to initiate the Base closure within two years, and to complete all of the closure actions within six years. On November 30, 20X5, the County Commissioners approved various economic incentives aimed at encouraging the redevelopment of the Base. The County's financial statements for the fiscal year ended June 30, 20X5, were issued on December 5, 20X5.

Conclusions

The following conclusions related to the fact pattern in this illustration are presented for each of the three fiscal years during which the events unfolded. For each of the three years, only the conclusions that have changed from those reached in the prior years are presented.

Conclusions for the year ended June 30, 20X3

- *Assessment of disclosure criteria:* The criteria were assessed for the primary government reporting unit, and the County did not report revenue debt in any other reporting units.

- *Concentration:* The Base is a concentration because, relative to other employers in the County, the Base directly or indirectly disproportionately affects several significant revenues of the County.
- *Vulnerability to the risk of a substantial impact:* Because the Base concentration affects several significant revenues of the County, the management of the County has determined that the concentration makes the County vulnerable to the risk of a substantial impact.
- *Occurrence of an event or events and their timing:* The County determined that the event of being placed on the BRAC list on December 1, 20X2, does not, in and of itself, cause a substantial impact. Instead, it informs the County management's assessment of whether it is more likely than not that an event that could cause a substantial impact will occur or begin to occur by November 25, 20X4 (12 months from the date the current year financial statements were issued). The management of the County considered the extensive due process that would be performed by the BRAC Commission in the next year, including the possibility of some bases being removed from the closure list. Based on this assessment, the County determined that it was not more likely than not that an event or events that could cause a substantial impact would occur by November 25, 20X4. Therefore, the disclosure criteria are not met, and no disclosure is required.
- *Mitigant:* Not applicable because the disclosure criteria are not met.

Conclusions for the year ended June 30, 20X4

- *Occurrence of an event or events and their timing:* Subsequent to the Base being placed on the BRAC list on December 1, 20X2, the BRAC Commission conducted hearings and made certain determinations that informed the judgments of the County with respect to the disclosure criteria. As of November 20, 20X4 (the date the current financial statements were issued), and based on the County's observations of the deliberations of the BRAC Commission, the management of the County determined that it is more likely than not that within 12 months, the Base will be recommended for closure by the BRAC Commission and also will be approved by Congress for closure. Congressional approval of the Base closure is an event that could cause a substantial impact to the County. The placement of the Base on the BRAC list in December of 20X2 had occurred prior to the issuance of the June 30, 20X4 financial statements, and a description of that event provides detail to enable users of the County's financial statements to understand the nature of the circumstances being disclosed and the County's vulnerability to the risk of a substantial impact associated with the concentration. Therefore,

information about the placement of the Base on the BRAC list is included in the disclosure. However, because the events of the final determination of the BRAC Commission and the approval of the U.S. Congress have not yet occurred, descriptions of those events are not included in the disclosure.

- *Mitigant:* Although the County Commissioners began developing a strategy to implement various economic incentives to encourage the redevelopment of the Base for another purpose in 20X4, no actions had been taken with respect to the strategy prior to the issuance of the financial statements on November 20, 20X4. Therefore, a description of those plans is not included in the disclosure.

Note X. Concentration of Employer for the Year Ended June 30, 20X4

McFarland Air Force Base is a large employer in Example County that employs nearly 2,000 military personnel and 850 civilians. The various tax revenues received by the County that are directly or indirectly related to the operations of the Base represent YY percent of the County's resources for the year ending June 30, 20X4. On December 1, 20X2, a commission established by the United States government to coordinate the Base Realignment and Closure (BRAC) process placed the Base on its list of possible military base realignments and closures. The County's operations could be adversely affected by a decline in the revenues associated with the Base.

Conclusions for the year ended June 30, 20X5

- *Occurrence of an event or events and their timing:* Prior to the issuance of the County's financial statements on December 5, 20X5, the U.S. Congress had approved the closure of the Base, and the County has determined that the occurrence of this event is the beginning of the Base closure, which could cause a substantial impact to the County.
- *Mitigant:* The County Commissioners approved various economic incentives for the redevelopment of the Base on November 30, 20X5. Therefore, a description of the approved economic incentives is disclosed. The County has determined that, although the approval of economic incentives has occurred, the circumstances still meet the criteria for disclosure.

Note X. Concentration of Employer for the Year Ended June 30, 20X5

McFarland Air Force Base is a large employer in Example County that employs nearly 2,000 military personnel and 850 civilians. The various tax revenues received by the County directly or indirectly related to the operations of the Base represent ZZ percent of the County's resources for the year ending June 30, 20X5. On November 15, 20X5, the U.S. Congress directed the U.S. Department of Defense to initiate a closure of the Base within two years (November 15, 20X7) and to complete all of the closure actions within six years (November 15, 20Y1). The County Commissioners have approved various economic incentives aimed at encouraging the redevelopment of the property associated with McFarland Air Force Base.

Appendix D

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—June 2024 Update

D1. The instructions that follow update the June 30, 2023 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), for the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

1500—REPORTING LIABILITIES

Sources: [Add GASBS 102.]

.128 [Insert the following sentence between the current first and second sentences:] For reporting units that report a liability for revenue debt, paragraphs .160–.165 of Section 2250 address risks related to certain concentrations or constraints. [GASBS 34, ¶116, as amended by GASBS 63, ¶8, GASBS 87, ¶37, and GASBS 96, ¶60 and ¶61; GASBS 34, ¶119, as amended by GASBS 88, ¶4; GASBS 34, ¶122, as amended by GASBS 37, ¶17 and GASBS 63, ¶7 and ¶8; GASBS 34, fn48, as amended by GASBS 91, ¶10; GASBS 102, ¶4–¶9]

* * *

2250—ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS

Sources: [Add GASBS 102.]

.101 [In the third sentence, add paragraphs .160–.165 to the list; revise the first sentence as follows:] This section establishes accounting and financial reporting standards for related party transactions, subsequent events, going concern considerations, accounting changes and error corrections, and risks related to certain concentrations or constraints. [GASBS 56, ¶2; GASBS 62, ¶3 and ¶54–¶57; GASBS 100, ¶2 and ¶4–¶39; GASBS 102, ¶4–¶9]

[Under the heading "Subsequent Events," insert new paragraph .117 as follows; renumber subsequent paragraphs.]

.117 Paragraphs .160–.165 of this section address risks related to certain concentrations or constraints, including those that occur subsequent to the statement of net position date but before the financial statements are issued. [GASBS 102, ¶4–¶9]

[Under the heading "Going Concern Considerations," insert new paragraph .122 as follows; renumber subsequent paragraphs.]

.122 Paragraphs .160–.165 of this section address risks related to certain concentrations or constraints, the effects of which may be considered when evaluating whether there is substantial doubt about a government's ability to continue as a going concern. [GASBS 102, ¶4–¶9]

[Insert new paragraphs .160–.165, including heading, as follows:]

Risks Related to Certain Concentrations or Constraints

.160–.162 [GASBS 102, ¶4–¶6]

.163–.165 [GASBS 102, ¶7–¶9, including headings (as subheading of "Risks Related to Certain Concentrations or Constraints) and footnote; in the footnote, replace *of this Statement* with *paragraphs .160–.165*]

[Insert new headings .728–.731 and associated text as follows; renumber the subsequent heading and paragraph:]

.728 Risks Related to Certain Concentrations or Constraints

No questions assigned.

.729 Disclosure Criteria

No questions assigned.

.730 General Disclosure Principles

No questions assigned.

.731 Notes to Financial Statements

No questions assigned.

* * *

2300—NOTES TO FINANCIAL STATEMENTS

Sources: [Add GASBS 102.]

.107 [Insert new subparagraph mmm as follows and add GASBS 102, ¶4–¶9 to the sources of the paragraph:]

mmm. Risks related to certain concentrations or constraints. (See Section 2250, paragraphs .160–.165.)

[Under the heading "Future Revenues That Are Pledged or Sold," insert new paragraph .129 as follows; renumber subsequent paragraphs.]

.129 Paragraphs .160–.165 of Section 2250 address risks related to certain concentrations or constraints, including those related to reporting units that report a liability for revenue debt that have characteristics of pledged revenue. [GASBS 102, ¶4–¶9]

* * *

C50—CLAIMS AND JUDGMENTS

Sources: [Add GASBS 102.]

[Under the heading "Other Disclosures," insert new paragraph .167 as follows; renumber the subsequent paragraph.]

.167 Paragraphs .160–.165 of Section 2250 address risks related to certain concentrations or constraints, including some that have the characteristics of a contingency. [GASBS 102, ¶4–¶9]

* * *

I50—INVESTMENTS

Sources: [Add GASBS 102.]

[Under the heading "Concentration of Credit Risk," insert new paragraph .155 as follows; renumber subsequent paragraphs.]

.155 Paragraphs .160–.165 of Section 2250 address risks related to certain concentrations or constraints, including some that have the characteristics of a concentration of credit risk. [GASBS 102, ¶4–¶9]