

GASB 102 Certain Risk Disclosures

Q1 GASB Statement No. 102 *Certain Risk Disclosures* is effective for fiscal years beginning after June 15, 2024 (Ohio governments are required to implement GASB 102 beginning with fiscal years ended June 30, 2025, and calendar years ending December 31, 2025). What are the reporting requirements for regulatory and OCBOA filers?

The objective of GASB 102 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 both concentrations and constraints and provides criteria for making disclosure. If a disclosure is required, GASB 102 provides the specific requirements for that disclosure.

GAAP and OCBOA filers will include GASB 102 disclosures as identified within the pronouncement. FAQ Q2 through the end apply to GAAP and OCBOA filers.

Regulatory filers should apply a modified approach to GASB Statement No. 102 and will need to disclose risks related to concentrations in either of these circumstances:

- **Concentration of Employer** A major employer has closed/left/d downsized or is more likely than not to be closing/leaving/d downsizing within 18 months of fiscal year end. Based on the professional judgement of the local government, the related impact to the local government could cause a substantial decrease in resources.
- **Concentration of Financial Resource Provider** Any other resource provider that has changed a major funding stream or is more likely than not to change a major funding stream within 18 months of fiscal year end. Based on the professional judgement of the local government, the related impact to the local government could cause a substantial decrease in resources.

More likely than not is a likelihood of more than fifty percent.

Substantial is something greater than significant. These types of events are not expected to be common. These events would be known and would be generating discussion at governing body meetings.

Although the disclosure is based on the professional judgment of the local governments, supporting documentation should be available for review by auditors.

FAQ Q2 through the end do not apply to regulatory filers.

For Schools (and other entities with a fiscal year end other than June 30), a sample GASB 102 OCBOA note will be incorporated into the [School](#) OCBOA Notes, and a sample GASB 102 regulatory note can be found in the [Generic Special Purpose Government](#) Regulatory notes. GASB 102 does not include changes in display requirements. The regulatory and OCBOA shells for December 31 year end will be updated by the end of the year.

Q2 What is the objective of GASB 102?

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. (GASB 102 Summary) Local governments may be vulnerable to risks from certain concentrations or constraints that limit their ability to acquire resources or control spending. (GASB 102 ¶4) The GASB 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. (GASB 102 ¶B9)

GASB 102 Certain Risk Disclosures

GASB 102 disclosures are not expected to be routine.

The GASB Board purposely took a narrow approach to the disclosure criteria as it is less costly to apply and better promotes consistency, comparability, and reliability in the information that governments disclose. (GASB 102 ¶B3)

GASB 102 is not intended to address risks resulting from normal operations or the risks of using estimates. Cyber risks and environmental, social, and governance risk are also outside the scope. (GASB 102 ¶B5, ¶B6, & ¶B8)

The requirements of GASB 102 apply to the financial statements of all state and local governments. (GASB 102 ¶2)

Note: Ohio regulatory governments follow the simplified approach described in Q1.

Q3 What is a concentration?

A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. 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

(GASB 102 ¶5)

The GASB 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, 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). (GASB 102 ¶B10)

The GASB 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 referenced above 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. (GASB 102 ¶B11)

GASB 102 Certain Risk Disclosures

Q4 What is a constraint?

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 revenues
- b. Limitations on spending
- c. Limitations on the incurrence of debt
- d. Mandated spending

(GASB 102 ¶6)

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.

Regulating agencies can mandate spending, for example, if the EPA were to mandate specific pollution control measures to be implemented by a specific time date.

Similar to the discussion about concentrations, the GASB Board noted that the examples above 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. (GASB 102 ¶B12)

Q5 What is the GASB 102 disclosure criteria?

A government should disclose in notes to financial statements the information identified in Q7 if all the criteria in subparagraphs (a)–(c) below are met. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt.

- a. A concentration or constraint (Q3 and Q4) 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.
- 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 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. (GASB 102 ¶7)

The phrase vulnerable to the risk of a substantial impact is intended to convey a degree of risk that is more than only the existence of a concentration or constraint. (GASB 102 ¶B22)

The GASB 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 GASB Board believes denotes a degree of magnitude greater than significant. ... The GASB Board believes that determinations that relate to the magnitude of impacts are subject

GASB 102 Certain Risk Disclosures

to the professional judgment of governments and should be decided by applying that judgment to both quantitative and qualitative factors. (GASB 102 ¶B23)

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. The disclosures required by GASB 102 generally are intended to be made before the ramifications of the event or events are experienced. (GASB 102 ¶B24)

The GASB 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 GASB 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 GASB 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 GASB 102, 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. (GASB 102 ¶B29)

Q6 What are the general disclosure principles?

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.

(GASB 102 ¶8)

Q7 What information is required to be disclosed in the notes to the financial statements?

For each concentration or constraint that meets all the criteria identified in Q5, 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 vulnerability to the risk of a substantial impact associated with the concentration or constraint. The disclosures should include descriptions of the following:

GASB 102 Certain Risk Disclosures

- 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.

(GASB 102 ¶9)

For items b & c above, 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. (GASB 102 ¶B43)

Maintaining a list of concentrations and constraints that can be carried forward in the workpapers each year may be an efficient way to track this information.

GASB 102 disclosures are based on professional judgment. Management should prepare an analysis of those events of which they are aware to document their conclusions. This analysis should be available to audit.

Q8 Are examples provided?

Appendix C of [GASB 102](#) provides four examples to assist local governments in making this analysis and drafting applicable disclosure.

Q9 If a potential GASB 102 event is ongoing, how do the GASB 102 disclosure requirements relate to disclosures required by various other GASB pronouncements?

GASB 102 focuses on the risk of an event happening that will have a financial impact; however, there are other GASB disclosure requirements to consider once the impact related to the event has occurred. In the answer to FAQ 5 above, there is discussion that GASB 102 disclosures are intended to be made before the ramification of the event or events are experienced. In GASB's Preliminary Views Document, *Severe Financial Stress and Probable Dissolution Disclosures*, Chapter 3 — Assessment of the Severe Financial Stress (SFS) Condition, there is discussion of this idea "That is, Statement 102 requires certain disclosures if there is a risk of an impact, and the SFS disclosures would have been required if the impact occurs." For these types of ongoing events, local governments will need to identify appropriate disclosure for:

- transactions/events where the impact has occurred and is reflected in the financial statements and/or meets separate GASB disclosure requirements (Refer to specific GASB for disclosure guidance)
- events that have occurred, but the impact has not yet been reflected in the financial statements due to timing requirements for recognition and/or separate GASB disclosure requirements not being met (Refer to GASB 102, also consider if these events meet subsequent events disclosure requirements)
- events where there still could be a financial impact (Refer to GASB 102)

GASB does not want the GASB 102 disclosure to be duplicative, and there is not a prescriptive requirement for the placement of the disclosure. This flexibility allows GASB 102 disclosures to be incorporated into existing disclosures. For example, if a major employer is leaving and there will be substantial impact to property taxes or incomes taxes, the GASB 102 disclosure could be incorporated into the property tax/income tax note. With property taxes, a major employer could

GASB 102 Certain Risk Disclosures

leave, but the impact might be delayed due to the property tax calendar, thus fitting into the second bullet point above.

Sometimes governmental entities will close (or dissolve) and the closure may take place over several reporting periods. In these types of ongoing events, potential separate financial disclosure requirements could include items like significant violations of finance-related legal or contractual provisions and actions taken to address such violations, going concern, and government combinations and disposals of government operations once the financial impact has occurred; however, there could also be GASB 102 disclosures to address the risk of additional financial impact from these or other events. Any GASB 102 disclosure can be combined with the related event specific disclosure requirements.