



## ACCOUNTING

# GASB 102 and More Disclosure for You

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**F**ollowing the issuance of the Governmental Accounting Standards Board (GASB) Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements—an amendment of GASB Concepts Statement No. 3* (GASB CS7) in June 2022, GASB has undertaken several projects focused exclusively or

primarily on required note disclosures, providing an opportunity to put GASB CS7's new, more rigorous criteria for note disclosure content to the test. The recently issued GASB Statement No. 102, *Certain Risk Disclosures* (GASB 102), is the first of these projects to become a final standard. This article will provide a brief overview of GASB 102 and some background on the other disclosure-focused projects on GASB's current technical agenda.<sup>1</sup>

GASB CS7 had reemphasized that notes to financial statements should contain only information that is *essential*, and clarified that information is essential if it meaningfully affects, or is expected to affect, analysis performed by many users in making economic, social, or political decisions, or assessing accountability of reporting governments. GASB uses the terms “breadth” or “depth” of users to roughly

quantify how many must use the information for it to be essential. This means that in GASB's user outreach, either a wide assortment of users from different user groups (such as, citizens, grantors, investors, creditors, and academics) or a large proportion of the members of a single type of user group (for example, all investors) would need to articulate how they would use an item of information for it to be deemed essential.<sup>2</sup> For a more comprehensive discussion of GASB CS7, please see the article “Theory in Practice?” in the October 2022 edition of *GFR*.

GASB 102 was issued in December 2023 and will become effective for governments with fiscal years beginning after June 15, 2024, and for all reporting periods thereafter. It defines *concentrations* and *constraints* that may limit a government's ability to obtain resources or control spending,

provides criteria for governments to determine if disclosure related to those risks is required, and lays out the required note disclosure content. In general terms, a concentration is a lack of diversity in the source of a significant resource, such as a tax or grant revenue that comprises a large portion of a government's overall revenue, or a lack of diversity in potential suppliers of labor, goods, or other services necessary for the government's operations. In similarly general terms, a constraint is a limitation on revenue, spending, or borrowing, or is mandated spending (since it prevents alternative uses of funds), which is generally imposed by an external party.<sup>3</sup>

GASB 102 requires disclosure when:

1. A concentration or constraint is known to the government prior to the issuance of financial statements,
2. That concentration or constraint makes the government vulnerable to a risk of a *substantial impact* to the primary government reporting unit (primary government total column in government-wide financial statements, which includes blended component units) or to any other reporting unit that reports a liability for revenue-backed debt (such as an enterprise fund or a business-type discretely presented component unit),
3. An event (or events) related to that concentration or constraint has occurred or begun to occur, or is more likely than not (probability > 50 percent) to begin to occur within one year of the date financial statements are issued, and
4. Mitigating actions taken by the government prior to issuance of the financial statements, if any, have not resulted in the situation now failing to meet the above criteria (1 to 3).

GASB 102 does not define or explain what constitutes a *substantial impact*, but GASB has stated that *substantial* is a higher threshold than significant. Significant, like the term material, is used to describe any item that would affect the judgement of a reasonable user of financial statements, based on its size and/or its nature, the specifics of which are a matter of professional judgement.

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If the criteria are met, the disclosure should describe:

1. The concentration or constraint,
2. Each event associated with the constraint and that could cause a substantial impact, which has occurred or begun to occur prior to the issuance of the financial statements, and
3. Actions taken by management prior to the issuance of the financial statements to mitigate the risk, if any.

Note that the inclusion of future events *deemed more likely than not to occur* in the criteria for disclosure, but only those that have *already* occurred or begun to occur in the content of the disclosure, means that governments may disclose only the existence of a concentration or constraint without providing information as to why it is a timely concern.

Looking forward, GASB's technical plan contains four other ongoing projects where the final standards, should they be issued, are likely to be entirely or predominantly changes to disclosures rather than to recognition and/or measurement of amounts displayed on the face of the financial statements.

### Classification of nonfinancial assets

In the wake of GASB statements No. 87, *Leases*; No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, governments are reporting many new, intangible, right-to-use, capital assets, which has raised questions about the need for additional detail on capital assets. In September 2023, GASB issued an exposure draft of a proposed statement, *Disclosure and Classification of Certain Capital Assets* (ED). The ED did not propose any changes to recognition or measurement of capital assets or any other financial statement elements. Instead, it proposed that certain

capital assets be disclosed separately within the existing detailed note disclosures.<sup>4</sup> Separate disclosure was proposed for:

- Capital assets held for sale that are probable of being sold within one year of the financial statement date,
- Lease assets, by major classification of underlying capital asset,
- Subscription assets, and
- Intangible assets, other than lease and subscription assets, by major class of asset

The ED also proposed that assets representing the right-to-use underlying intangible assets, other than subscription assets, should be required to be disclosed separately from owned intangible capital assets. Additionally, the ED proposed a nonexclusive list of factors for governments to consider when assessing the probability that the sale of a capital asset will be finalized within one year.

A final pronouncement is expected to be issued in the third quarter of 2024.

### Going concern uncertainties and severe financial stress

Current authoritative standards, which had been based largely on older private-sector guidance, require disclosures only when there is significant uncertainty about a government's ability to continue to exist for at least a year after the financial statements are issued, and they focus consideration on a government's ability to meet obligations as they come due. But even when they are under severe financial stress and may be insolvent or nearly so, few governments cease to exist. Moreover, there are situations when governments that are not experiencing financial stress are nonetheless likely to cease to exist in the same legal form for other reasons, such as a planned

consolidation of governments. In this project, GASB is exploring separately defining *going concern uncertainties* (GCU) and *severe financial stress* (SFS), identifying what information about each is essential for users' understanding, and likely proposing new disclosure requirements based on that research.

During their meetings in 2023 and in January 2024, the board made decisions about questions to be included in its user outreach on both GCU and SFS, looking to elicit the data necessary to evaluate essentiality of specific information about each, in accordance with the definition of essentiality discussed above. As shown during the deliberations that led to GASB 102, the board is willing to forego disclosure proposals for which no breadth or depth of users explains how they would use the information in making economic, social, or political decisions, or assessing accountability during user outreach. The current technical plan calls for a preliminary views document to be issued for public comment near the end of 2024.

### Infrastructure assets

With recognition and measurement of liabilities related to postemployment benefits (pensions and retiree healthcare) and those arising in conjunction with right-to-use assets (leases, public-private partnerships, and subscriptions) now firmly ensconced in generally accepted accounting standards (GAAP), some in the public finance arena see deferral of maintenance on infrastructure as the last major looming unreported financial obligation of many governments. Infrastructure such as roads, railways, bridges and tunnels, water distribution, wastewater collection and treatment, power generation and distribution, dams, and piers and bulkheads, are essential to the economic and public health and safety of communities, and there is anecdotal and research-based evidence that in many cases the maintenance necessary to preserve these assets in good working order has been deferred by governments, with significant financial implications.<sup>5</sup> GASB undertook this project to address concerns that users need additional information to assess whether and to what extent unaddressed maintenance

needs will require governments to perform expensive major rehabilitation work on, or require replacement of, existing infrastructure assets, for which financial provision may not have been made. A preliminary views document for public comment on this project is expected to be issued in the third quarter of 2024.

### Subsequent events

Research conducted by GASB demonstrated that many governments are not properly reporting and disclosing information about events that occur after the end of a financial reporting period but prior to the issuance of financial statements. Generally, governments are required by current GAAP to update the amounts reported on the face of the financial statements and in the related disclosures when additional information becomes available that permits a more accurate estimate of amounts reported related to situations that existed at the end of the reporting period. An example would be developments in legal cases that can be used to refine estimated liabilities for judgments and claims. These are called recognized subsequent events.

On the other hand, when information becomes available about conditions that did not exist as of the reporting date, but that information is essential to users' understanding of the financial statements, governments are required to provide that information in its note disclosures.<sup>6</sup> For example, the City of New York's financial statements for its fiscal year ended June 30, 2001, but were issued in October 2001. The amounts on those statements were not adjusted to reflect the September 11, 2001, terrorist attack on, and destruction of, the World Trade Center, but a note disclosure about that event was included (in other words, the attack was a non-recognized subsequent event). Similarly, many governments with calendar-year fiscal years included disclosures about the effects of the COVID-19 pandemic that affected their 2020 fiscal years when they issued financial statements for their 2019 fiscal years during or after March 2020.

In this project GASB has been considering changes including but not limited to:

1. The definitions and explanations of recognized and non-recognized subsequent events,
2. The description of the period in which subsequent events occur (for example, does it end when financial statements are issued, or when they are *available to be issued*—meaning as soon as they have been approved and the audit opinion has been signed, even if formal distribution has not yet occurred),
3. Whether unrecognized subsequent event disclosure should be limited to those events that are outside of the government's normal activity in terms of their nature or their size, and
4. What specific information about non-recognized subsequent events should be included in note disclosures.

An exposure draft, which would be the first (and presumably last) due process document for public comment for this project, is currently expected in the fourth quarter of calendar 2024.

If and when GASB systematically reviews all remaining disclosure requirements to determine whether their contents meet the CS7 criteria to be essential remains uncertain, but their deliberations on these projects evidence the board's willingness to apply the stricter rules. We anxiously await a time when preparers, auditors and even users—who would presumably appreciate finding the information they will actually use more easily—will benefit from less voluminous disclosure. In the meantime, we'll add the notes required by GASB 102. ■

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<sup>1</sup> For a comprehensive discussion of GASB 102, subscribers to GFOA's GAAFR Plus service should review the GAAFR Supplement, *Certain Risk Disclosures*, issued March 2024.

<sup>2</sup> CS7, paragraph 11. a. and b.

<sup>3</sup> A constraint can also be self-imposed, but in a manner that would generally make it externally enforceable and difficult to reverse, such as through a state constitution or local government charter, or via enabling legislation.

<sup>4</sup> Of course, governments could choose to put this detail on the face of their financial statements, but only detailed disclosures were proposed.

<sup>5</sup> For example, the American Society of Civil Engineers publishes a report card, most recently in 2021, on U.S. infrastructure assets, and the Volker Alliance issued a report on the subject in 2019.

<sup>6</sup> GASB Cod. Sec. 2250.109-116.