



ACCOUNTING

Turn Off the Lights When You Leave

When a Government is Not a “Going Concern”

BY MICHELE MARK LEVINE

Recall, if you will, the foundational concepts of accounting you learned when you first took an accounting class. Many of the points made by professors early in my accounting education about core concepts have really stuck with me.

One was a discussion of the concept of *materiality*, using the example of a small plastic trash bin in the classroom that had already lasted many years. For all I know, it may still be in use today, over 40 years later (but nonetheless not worth having

been capitalized and depreciated!). That trash bin example is probably at the root of my enthusiasm for GFOA's Rethinking Materiality initiative (gfoa.org/rethinking-materiality).

Another was the concept of *conservatism*, which I likened to the value of humility over bragging. These days, the concept of conservatism has been largely replaced in financial reporting by the much-improved goal of reflecting *best estimates* where uncertainty exists in financial statements, rather than systematically skewing them in one direction—although conservatism continues to sneak into many accountants'

professional judgements (and personalities!).

A third classroom discussion that I recall was on the concept of an *accounting entity*, meaning that a business or other enterprise can be separate and distinct from its owners, managers, vendors, customers, etc., for accounting and financial reporting purposes, regardless of its legal status as such. Although old fashioned (think of a “sole proprietorship” that is simply a person “doing business as” an entity), this one is nonetheless alive and well, and the foundation of fund-level financial reporting by governments.

This article will focus on the assumption that entities for which financial reports are prepared are *going concerns*, meaning that, while the future is always uncertain, there is no reason to believe they will imminently cease to exist. Without the going concern assumption, things like capitalization and depreciation of the historical cost of capital assets over expected useful lives, and the use of present value techniques in measuring assets and liabilities, would not make any sense. “Going concern” is also an essential assumption underpinning *deferred outflows of resources* and *deferred inflows of resources*, but those didn’t exist at the time of my education. [These deferred resource flows seem like baffling new-fangled, unique-to-government inventions to many of us old-timers, and even to some newly minted accountants!]

So, what happens if there is evidence that a government doesn’t “qualify” as a going concern?¹ And, more fundamentally, what exactly does that mean in the government environment?

In the private sector, business and not-for-profit enterprises can and do shutter their actual and metaphorical doors and cease to exist. But most governments simply *cannot* dissolve, and others can only do so at the discretion of other governments (states) and when they can pass on the responsibility to continue provision of the essential public services to other governments. A government might actually *be* insolvent but nonetheless be at *no risk* of dissolving, and in such situations readers of their financial statements should be alerted to the problems. On the other hand, governments that *do* cease to exist—usually through combination with, or transfer of operations to, other governments—may do so for reasons unrelated to their finances, such as to provide efficiencies that benefit taxpayers.² Though less alarming, these governments’ impending demise literally means they are not going concerns.

Let’s get back to our question about reporting when that going concern assumption is in doubt. For nongovernmental entities, the Financial Accounting Standards Board (FASB) has a clear answer to this question. The FASB Accounting Standards Codification (ASC), ASC 205-30, provides a *liquidation basis of accounting* that should be used in most cases “when liquidation is imminent...”³

A government might actually be insolvent but nonetheless be at no risk of dissolving.

FASB also requires certain note disclosures, usually referred to as “going concern disclosures” (misnamed, as they are required when there is evidence that a government should not be assumed to be a going concern), be made if conditions and events “raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued...”⁴

For governments, though, the Governmental Accounting Standards Board (GASB) provides no alternative basis of accounting. Instead, governmental generally accepted accounting principles (GAAP) rely solely on going concern note disclosures.⁵ Current GASB GAAP state that “Information that may significantly contradict the going concern assumption would relate to a governmental entity’s inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar

actions,”⁶ and also that the “effects of the governmental environment should be considered when evaluating indicators.”⁷ This seemingly broadens the concept of going concern uncertainties beyond situations in which governments will actually dissolve. Nonetheless, the language requiring those disclosures references “substantial doubt about a governmental entity’s ability to continue as a going concern,”⁸ which seems to again use the (literal) continued existence as the effective criteria for making disclosures. Because of the loose relationship between governments’ financial conditions and their continued existence, there is a lot of inconsistency in the application of these disclosure requirements.

GASB’s current technical agenda includes a project on Going Concern Uncertainties and Severe Financial Stress (gasb.org/page/ShowPdf?path=GCD_PV_CLO11.pdf) that is attempting to improve consistency. The approach proposed in a due process document issued back in March 2025, *Preliminary Views, Severe Financial Stress and Probable Dissolution Disclosure* (PV), was to acknowledge and separately address two considerations: the financial health (i.e., is a government in severe financial stress) and the continuity of a legal entity (i.e., “...it is probable that it will cease to exist as the same legally separate entity...”)⁹ The PV postulated that (1) severe financial stress (SFS) is a condition that exists *as of a point in time* and is a variable *completely independent* of whether the government will continue or cease to exist going forward, and (2) the probability of dissolution (PD) is *forward looking*, assessing the likelihood that the government will cease to exist in its current legal form within 12 months of the date financial statements are available to be issued, regardless of its financial health.¹⁰ Of course, SFS would often (but not always) be the direct or indirect cause of PD.



Severe financial stress is a condition completely independent of whether the government will continue or cease to exist going forward.

This “divide and conquer” approach appears eminently logical, given that it directly addresses (1) the inherent contradictions in current GAAP that are the apparent source of confusion and inconsistent application of existing disclosure requirements, and (2) the rather glaring omission from consideration of *nonfinancial* factors that may refute the assumption that a government is a going concern.

Objections have been raised, however, by the American Institute of Certified Public Accountants (AICPA) and others that the proposed approach would result in the following issues (among others):

- Misalignment of preparer (GAAP) disclosure requirements and auditors' requirements to consider, and perhaps modify, their audit opinions to reflect going concern uncertainties in accordance with generally accepted auditing standards (GAAS). Current GAAS, AICPA states, “... aligns the auditor's going concern assessment with

that of the financial reporting framework applied by the reporting entity and describes associated auditors' responsibilities in that manner.”¹¹ GASB's proposed treatment of SFS as a point-in-time condition varies from the auditor's responsibility “... to conclude, based on the audit evidence obtained, whether substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time exists.”¹² Auditors would therefore be responsible for making their own conclusion as to whether there is substantial doubt, rather than for assessing and opining on those conclusions that are made by management.

- Creation of a practical requirement for governments to perform two different but related assessments of their financial health, first as of a point in time to determine if SFS disclosures are required, and then again with the 12-month look-forward to determine if PD disclosures are required.

- Adding consideration of potential government dissolutions for reasons other than financial stress to required disclosures, which is contrary to the traditional purpose and use of going concern disclosures.
- Make GASB the lone exception to the current alignment of accounting standards with audit standards on these points, thereby causing confusion.

It would be no small decision for GASB to take this less-traveled path, but it is one the organization has made on many prior occasions and will likely face many times in the future, as there is no evidence that calls into question the assumption that GASB is itself a going concern. ■

¹ GASB Codification of Governmental Accounting and Financial Reporting Standards as of December 31, 2025, (Cod.) Section (Sec.) 2250, “Additional Financial Reporting Considerations.” Paragraphs .118 through .112 address going concern considerations and provide example indicators that there is substantial doubt about a government's ability to continue as a going concern.

² Of course, private sector entities also dissolve for reasons other than financial stress; but Financial Accounting Standards Bureau GAAP, like current GASB GAAP, is clearly intended to address risks of dissolution due to financial ill-health.

³ CAS 205-20-25-1.

⁴ CAS 205-40-50-1.

⁵ In the preliminary views document discussed later in this article, GASB decided to limit its consideration of going concern issues to disclosure, rejecting the use of a liquidation basis of accounting (GASB Preliminary Views, *Severe Financial Stress and Probable Dissolution Disclosure*, chapter 2, paragraph 6).

⁶ Cod. Sec. 2250.118.

⁷ Cod. Sec. 2250.120.

⁸ Cod. Sec. 2250.121.

⁹ PV Chapter 5, paragraph 2.

¹⁰ This date will replace the date on which financial statements are issued as the end date of the period throughout which subsequent events are to be considered, in accordance with GASB Statement No. 105, *Subsequent Events*. See the August 2026 *GFR* article, “Hindsight or Foresight? Subsequent Events Can Provide Either.”

¹¹ The American Institute of Certified Public Accountants (AICPA) comment letter on GASB's Preliminary Views, *Severe Financial Stress and Probable Dissolution Disclosures*, dated June 24, 2025, and available as of the date this article was written, at gasb.org/page/ShowPdf?path=GCD_PV_CL011.pdf.

¹² Ibid.



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