May 1, 2025

MEMORANDUM OSRAP 25-11

TO: Fiscal Officers

FROM: Brian Fleming, CPA
Director, Office of Statewide Reporting and Accounting Policy

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 102, *Certain Risk Disclosures*

Link to full statement: **GASBS 102**

Effective Date: State's fiscal year ending **June 30, 2025**.

Summary

GASB Statement No. 102 establishes disclosure requirements for risks related to vulnerabilities due to certain concentrations or constraints that may limit a government's ability to acquire resources or control spending. This Statement is effective for fiscal years beginning after June 15, 2024, or the State's FY25 Annual Comprehensive Financial Report (ACFR).

As result of this Statement, state entities will need to first assess whether concentrations or constraints exist making them vulnerable to the risk of a substantial impact. Next, an assessment will be needed on whether an event or events associated with that concentration or constraint have begun to occur or will begin to occur within 12 months of the date the financial statements are issued. Generally, if those criteria are met, the entity must disclose (1) the concentration or constraint; (2) the event(s) associated with the concentration or constraint that could cause a substantial impact if the event(s) have occurred or have begun to occur prior to the issuance of the financial statements; and (3) actions taken prior to the issuance of the financial statements to mitigate the risk.

This Statement primarily impacts the State's ACFR, but also impacts state entities with their own separately issued financial statements, such as universities, levee districts, financing authorities, and certain boards and commissions. Disclosure may be required in certain annual fiscal reports (AFRs). Regardless of AFR disclosure, it will be important that all state entities still notify OSRAP immediately of any material concentrations or constraints once identified as potentially having a substantial impact. This is because the disclosure in the State's ACFR must be based on information known at financial statement issuance, which is December 31st.

Key Provisions

A government may be vulnerable to risks from certain concentrations or constraints that limit its ability to acquire resources or control spending. Concentrations and constraints are defined as follows:

- **Concentration** – a lack of diversity related to an aspect of a significant inflow of resources (e.g. revenue) or outflow of resources (e.g. expense). Examples include, but are not limited to, the composition of any of the following:
    - Employers
    - Industries
    - Inflows of resources
    - Workforce covered by collective bargaining agreements
    - Providers of financial resources
    - Suppliers of material, labor, or services

- **Constraint** – a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. Some examples include, but are not limited to, the following:
    - Limitations on raising revenue
    - Limitations on spending
    - Limitations on incurrence of debt
    - Mandated spending

Disclosure criteria

The disclosure criteria below should be assessed for the (1) primary government reporting unit, including blended component units, and (2) all other reporting units that report a liability for revenue-backed debt such as an enterprise fund or a major discretely presented component unit. A government should disclose a concentration or constraint if all of the following criteria are met:

a) A concentration or constraint 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[1] 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*[2] 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, no disclosure is required. A plan of mitigating action that has not yet commenced is not sufficient. The mitigating action must have actually occurred before the issuance date.

The fact alone that a concentration or constraint may exists does not meet the disclosure criteria. There must also be an associated event(s) causing the concentration or constraint to have a substantial impact. For example, a government's primary revenue source is from a single business taxpayer, which is a

[1] In the context of this Statement, *risk* refers to conditions that give rise to the potential for loss or harm to a government.
[2] *More likely than not* means a likelihood of more than 50 percent.

concentration. This fact alone doesn't require disclosure. However, if there is an associated event expected to occur (e.g., that business plans to relocate outside of the government's jurisdiction) within 12 months of financial statement issuance and that event will have a substantial impact on the government (e.g., the government will lose its primary revenue source), the disclosure criteria is met, and the government must include the required disclosures described below.

In another example, state law imposes a debt limit on the government, which is a constraint limiting the government's ability to acquire resources through borrowings. If the government is not approaching that debt limit and/or the government has no required need within 12 months of financial statement issuance to raise money by issuing debt, the constraint does not make the government vulnerable to the risk of a substantial impact. Therefore, the disclosure criteria has not been met, and no disclosure would be required by this Statement.

Disclosure Requirements in the Notes to the Financial Statements

For each concentration or constraint that meets <u>all</u> of the disclosure criteria above, the disclosure 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[3] by the government prior to the issuance of the financial statements to mitigate the risk.

When disclosures required by this Statement supplement disclosures required by other authoritative guidance, the information should be combined with those other note disclosures in a manner that avoids unnecessary duplication. Similarly, information that is the same for more than one reporting unit should be combined in a manner that avoids unnecessary duplication.

When considering the inclusion of discretely presented component unit disclosures related to this Statement, the primary government should consider the nature and significance of the major discretely presented component unit to the primary government (GASB Codification 2600.124 or GASBS No. 14, ¶63, as amended).

Examples and Illustrations

Appendix C beginning on page 31 of the Statement provides four example illustrations with disclosures (see page 1 of this memo for link to the full statement).

Additional Resources

Any questions concerning this implementation memo can be directed to Mark Rhodes at 225-342-0711 or mark.rhodes@la.gov (cc: OSRAP@la.gov).

[3] The mitigation action must have occurred. Plans of mitigation actions that have not yet commenced are not disclosed.