Understanding GASB Statement No. 102: A New Standard for Government Risk Disclosures

by Cristina R. Oropeza, CPA, Audit Manager

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When most people think about government finances, they picture massive budgets, taxpayer funding, and line-item spending on everything from roads to education. But behind the scenes, there's another critical piece of the puzzle: risk. That's where GASB Statement No. 102: Certain Risk Disclosures comes in.

This new accounting standard strengthens how governments disclose material risks in their financial statements, helping stakeholders—from elected officials to taxpayers—better understand the challenges that may lie ahead. Whether you're a public finance professional, an auditor, or a concerned citizen, here's why GASB 102 matters and what you need to know.

What is GASB 102?

GASB 102 is all about risk awareness and communication. Specifically, it requires certain government entities to disclose risks that could have a significant impact on their financial position or operations. These aren't just vague warnings, but well-defined, material risks that might influence a government's ability to deliver services or maintain fiscal stability.

These disclosures are now required in the financial statements if the risk is:

- Known before the report is issued,
- Makes a reporting unit vulnerable to a substantial impact, and

- The associated event(s) 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 standard outlines two key types of risk disclosures:

- Concentration Risks
- Constraint Risks

Let's explore each one in more detail.

1. **Concentration Risks**

A concentration risk exists when a government relies heavily on a specific revenue source, employer, industry, or service provider, for example. If a significant inflow or outflow of resources is disrupted, the financial impact could be significant.

Example: A municipality depends on a single employer for a large portion of its tax base. If that employer relocates or shuts down, it could lead to a substantial loss in revenue.

2. **Constraint Risks**

A constraint risk exists when there is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority, such as, but not limited to, limitations on spending, incurrence of debt, raising revenue, and mandated spending.

Example: A school district needs to build a new school to accommodate rising student enrollment. The project is estimated to cost $25 million. However, under state law and local policy, the district's debt limit is 2.5% of assessed property value in the district. Based on the most recent property valuations, the district's maximum allowable debt is $50 million, and it already has $45 million in outstanding bonds. This means the district can only issue up to $5 million in new debt—far short of the $25 million required.

If it's been determined that criteria for disclosure have been met for a concentration or constraint, governments should disclose the information in the notes to the financial statements in sufficient detail – which should include:

- The concentration or constraint,
- Each event associated with the concentration or constraint that could cause a substantial impact if the event has occurred or had begun to occur prior to the issuance of the financial statements, and

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

Why Does GASB 102 Matter?

At the end of the day, this new standard is about transparency and trust. By clearly identifying risks up front, governments:

- Help stakeholders (like taxpayers, auditors, and policymakers) make informed decisions
- Avoid surprises in the budget process
- Show they're serious about accountability

These types of disclosures help readers understand emerging challenges that could affect future performance, even if they occur outside the traditional reporting window. In a world where public confidence can be fragile, these kinds of proactive disclosures are a step in the right direction.

Who Must Comply and When?

GASB Statement No. 102 applies to all state and local governments that follow Generally Accepted Accounting Principles (GAAP) established by GASB. This includes municipalities, counties, school districts, and more.

The standard is effective for fiscal years beginning after June 15, 2024. That means most governments will see the impact in financial reports issued in 2025 and beyond.

Risk Happens. Be Ready!

If you work in government accounting, now's the time to start prepping. Review your risk management policies, talk with your legal and finance teams, and get ahead of the disclosure game. No government is immune to risk.

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