

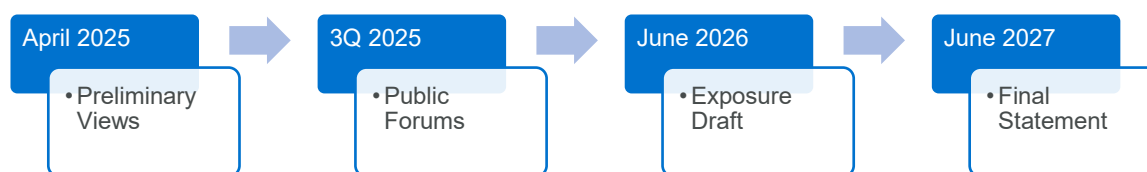
GASB recently issued [preliminary views \(PV\)](#) on updating authoritative guidance on going concern. The PV document solicits early feedback from preparers and financial statement users when there are—or are likely to be—sharply divided opinions from respondents or board members. Comments are due on June 30, 2025 and there will also be several public forums to provide feedback.

Background & Current Guidance

Statement 56 incorporated 1988 American Institute of CPAs (AICPA) guidance for going concern uncertainty into GASB authoritative guidance. The AICPA guidance was not specially created for government entities and was not tailored when incorporated into Statement 56. Under this guidance, a government should evaluate whether there is a substantial doubt about its ability to continue as a going concern for 12 months from the financial statement date or shortly thereafter. The guidance contains several indicators related to a government's financial condition to evaluate its ability to continue to meet its obligations as they come due. Pre-agenda research indicated that the current guidance is challenging for preparers and auditors to assess a government's ability to continue as a going concern, and this has led to diversity in practice. Research noted that the population of governments experiencing severe financial stress is significantly larger than those with going concern issues. Few governments dissolve or cease operations as a result of severe financial stress. Some state laws prohibit governments from filing bankruptcy or require a merger or consolidation agreement in place to continue existing services before dissolution. Financial statement users would like to see information well before a dissolution is considered.

GASB's plan is to move from a focus on going concern and instead develop new disclosures related to the separate concepts of severe financial stress and probable dissolution. Severe financial stress would be considered a condition existing at the financial statement date, while probable dissolution is uncertainty about a future event occurring.

The scope of this project is limited to disclosures and does not include the use of a liquidation basis of accounting.



Initial Project Timeline

Severe Financial Stress

According to GASB, new guidance would focus on a government's financial condition regardless of whether there is uncertainty about its continued existence. A government would not be required to evaluate its future financial

FORsights

condition. Disclosures would be required if—as of the financial statement date—a government is experiencing financial stress to such a degree that it is near or at the point of insolvency, regardless of whether it will continue to exist. The point of insolvency would be when a government generally is not paying or is unable to pay its liabilities as they come due. A government near the point of insolvency would be experiencing a very high level of financial stress but would not be insolvent. Judgment would be required to make this assessment. For example, one missed payment would generally not indicate a government is insolvent.

The assessment should be made at the primary government level, including its blended component units. The concept of insolvency or near insolvency does not apply to reporting units that are less than a separate entity, such as funds.

Near Insolvency

Not all governments that are near insolvency will actually become insolvent. A government might be able to maintain or improve its financial condition without becoming insolvent. The PV document includes the following examples that a government could be near insolvency:

There are structural deficiencies, such as:

- Recurring periods in which expenses/expenditures exceed revenues
- Consistent working capital deficiencies
- Recurring inability to balance the budget without the use of one-time funds
- Loss of source or provider of resources
- Increased reliance on short-term borrowings in order to continue operations
- For business-type activities, recurring periods in which the subtotal for operating income (loss) and noncapital subsidies is negative

There is a need to take action to improve financial condition, such as:

- Reduce services
- Seek new sources or methods of financing
- Dispose of assets
- Restructure debt

There are noncompliance or legal matters, such as:

- Default on certain bonds
- Not meeting certain obligations to vendors or employees
- Noncompliance with debt service reserve requirements
- Adverse legal proceedings, legislation, or similar matters

None of the indicators on their own always indicates a government is near insolvency. These indicators should be considered in terms of timing, interrelationships, and severity.

FORsights

Severe Financial Stress Disclosures

Disclosure—if required—should be made at the primary government level, including blended component units, and would include the following:

- The reasons and causes for the condition, including pertinent conditions and events
- The government’s evaluation of the significance of those reasons and causes
- Government actions taken in response to the condition prior to the date the financial statements are made available for issuance
- The known effects of the condition, such as a credit rating downgrade

Subsequent Reporting

If a government no longer meets the condition for severe financial stress in the next reporting period, it should disclose how the severe financial stress was alleviated.

If a government continues to meet the condition for severe financial stress in the next reporting period, it should update disclosures for the current reporting date.

Probable Dissolution

According to GASB, new guidance would focus on the uncertainty about a government’s continued existence regardless of its financial condition. A government would be required to make disclosures if it is probable that it will cease to exist as the same legally separate entity within 12 months of the date the financial statements are available to be issued. A government can cease to exist as the same legally separate entity through a merger, acquisition, or dissolution without replacement. GASB would leverage existing definitions for mergers from Statement 69, *Government Combinations and Disposal of Government Operations*. A dissolution without replacement is similar to a private-sector entity going out of business and is the type of dissolution that generally is considered when applying existing going concern guidance.

Relevant factors would be evaluated in the aggregate to determine the likelihood of dissolution within the time frame. Relevant factors are known and reasonably knowable to the government at the date the financial statements are available to be issued. Probable dissolution should be evaluated **separately** for the primary government and each blended component unit. Relevant factors include (but are not limited to):

- Operational inefficiencies, such as duplication of efforts with another government that could be resolved through merger or acquisition, elected or appointed positions going unfilled due to lack of citizen participation, or maintenance of infrastructure that was developed for a larger population than the government currently serves
- Financial stress (if financial stress can lead to dissolution of the government), such as filing for Chapter 9 bankruptcy¹ or meeting the severe financial stress criteria

¹Allows a government to restructure its debts but does not end with dissolution.

FORsights

- Dissolution actions, such as the recent dissolution of other similarly situated governments, negotiations toward a potential merger or acquisition, or the initiation of legal dissolution proceedings and the likelihood of those proceedings continuing to completion within the time frame
- The government's plans to alleviate operational inefficiencies or financial stress or to block dissolution actions

Probable Dissolution Disclosures

Probable dissolution disclosures would include:

- A statement that dissolution is probable
- The reasons and causes for the probable dissolution, including pertinent conditions and events
- The government's evaluation of the significance of those reasons and causes
- Government actions taken in response to the probable dissolution prior to the date the financial statements are available to be issued
- Information about the recoverability, amounts, or classification of assets and liabilities

Subsequent Reporting

If a government no longer meets the condition for probable dissolution in the next reporting period, it should disclose why the evaluation differs from prior financial statements.

If a government continues to meet the condition for probable dissolution in the next reporting period, it should update disclosures for the current reporting date.

Conclusion

The public sector industry continues to experience change and challenges, from accounting standards changes to technological advancement and digital transformation, while facing budgetary constraints and resource shortages. In this environment of change occurring at increasing speed, monitoring current changes and staying aware of expected changes are extremely important. We are committed to staying at the forefront of industry issues and our team remains informed and poised to address the evolving regulations and changes affecting the public sector.

We encourage you to connect with a local team member at Forvis Mazars for questions regarding any of the topics detailed in this document, or if you would like to learn more about our firm and how we can help your organization.

Contributor

Anne Coughlan

Director, Professional Standards Group
anne.coughlan@us.forvismazars.com