NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

DENISE CANADA
DIVISION DIRECTOR

Memorandum # 2026-03

TO: **Local Government Finance Officials and Their Independent Auditors**

FROM: **Kendra Boyle, Director, Fiscal Management Section**

SUBJECT: **GASB Statement No. 102, *Certain Risk Disclosures***

DATE: **August 26, 2025**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 102, *Certain Risk Disclosures* (Statement 102) in December 2023. This statement became effective for fiscal years beginning after June 15, 2024, which means that it is now in effect for most local governments and public authorities in North Carolina.

This memorandum[1] is organized as follows:

- Scope
- Definition and Exceptions
- Criteria for Risk Disclosures
- Note Disclosures
- Notes to the Financial Statement (Illustrative Examples)
- Conclusion

Scope

Statement 102 establishes financial reporting requirements regarding essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement is not intended to be the public sector equivalent of either American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, or Financial Accounting Standards Board (FASB) Accounting Topic 275, *Risks and Uncertainties*.

Statement 102 does NOT require the disclosure of the nature of the government's operations or its use of estimates in the preparation of financial statements. Moreover, Statement 102 does NOT require note disclosures in the financial statements for all concentrations and constraints. For example, cyber, environmental, social, and governance risks were noted in the Statement 102 basis for conclusion as being outside the scope of the project that led to this Statement. While acts of God, war, or sudden catastrophes were not specifically excluded from the scope of the Statement, Statement 102, again in the basis for conclusion, noted the reference to "certain" sufficiently limited the scope of this Statement.

[1] This memorandum reflects the collaborative input of subject matter experts and technical advisors from the UNC School of Government and other organizations, whose contributions were integral to its preparation.

Definition and Exceptions

Concentrations and constraints may limit a government's ability to acquire resources or control spending. Statement 102 defines concentrations and constraints as follows:

Concentration is a lack of diversity related to an aspect of a significant inflow or outflow of resources.

Examples include, but are not limited to, a small number of companies or organizations that represent most of the employment in a government's jurisdiction, a reliance on a specific industry for employment or resources, a government that relies on one revenue source for most of its revenue, a utility with revenue bonds outstanding that relies on a small number of customers. A specific example would be a resort in a small government unit that provides the major employer and is the water utilities' largest customer.

The GASB concluded, as noted in the basis for conclusions, that the identification of a concentration is a matter of professional judgment and is based on both qualitative and quantitative factors. However, this judgment should be exercised within the context of the definition.

Constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority.

Examples include, but are not limited to, a voter-approved property tax cap or other limitations on raising revenue, a state-imposed debt limit or other limitations on the incurrence of debt, limitations on spending, such as those imposed through debt covenants, and mandated spending.

The GASB noted in the basis for conclusions that the examples provided are neither inclusive of all types of constraints for all types of governments nor prescriptive of the types of constraints in the scope of the Statement. However, the identification of a constraint should be based on the definition provided in Statement 102.

Criteria for Risk Disclosures

As previously noted, Statement 102 does NOT require note disclosures in the financial statements for all concentrations and constraints. Governmental units are required to include disclosures when all 3 of the following **criteria** are true:

- The government unit knows about the concentration or constraint before its financial statements are issued.
- The government unit is vulnerable to the risk of a substantial impact because of that concentration or constraint.
  - The term "substantial impact" was clarified to an extent in the basis for conclusion "as broadly conveying a financially disruptive effect on the normal functioning of government." Again, determination of the magnitude of impact is subject to professional judgment applying both quantitative and qualitative factors.
- One or more events that are associated with that concentration or constraint that could cause a substantial impact on the government unit have (a) already happened; (b) started to happen; or (c) are more likely than not to start happening within a year of the financial statements being issued. (Note: For purposes of Statement 102, the term "more likely than not" means a likelihood of more than 50%.)

Note: In determining whether a disclosure is required, the criteria should be assessed for the primary government and all other reporting units that report a liability for revenue debt.

Considerations for implementation:

- This is an exception based disclosure. Therefore, it should not be expected to occur regularly.

- Catalog the concentrations and constraints that the government faces.
- Evaluate whether those concentrations and constraints make the government vulnerable to a substantial impact.
- Has anything happened or started to happen that may trigger that substantial impact? What, specifically, is the event?
- Alternatively, is something more likely than not to occur within 12 months of the date the financial statements are issued?
- What information needs to be disclosed about the concentration of constraint for the note to sufficiently inform the user?

Exceptions:

If a governmental unit has initiated mitigating actions prior to the issuance of the financial statements and such steps are successful to the point that any of the three criteria noted above are no longer met, no note disclosure is required.

If a governmental unit has been taken over by the LGC, the LGC requires that disclosures in the next section be presented in the notes to the financial statements, even in situations where the government has not met the criteria or the government unit has implemented mitigating actions.

Note Disclosures

When (1) the three criteria for a qualifying risk disclosure are met and mitigating actions have NOT been taken that would cause any of the disclosure criteria not to be met or (2) the government unit has been taken over by the LGC, the notes to the financial statements should disclose the specific facts, circumstances, and variety of types of risk in sufficient detail to allow users to understand the nature of the circumstances disclosed and the related vulnerability to the risk of substantial impact associated with the concentration or constraint. The disclosures should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event has occurred or has begun to occur prior to the issuance of the financial statements
- Actions taken by the governmental unit to mitigate the risk prior to the issuance of the financial statements

General Disclosure Principles

The disclosures related to these risks should be developed based on the following principles:

- If the disclosure is required, it should include the description of the event and the action taken. Reminder: If the unit mitigates the concentration or constraint before fiscal year end and eliminates one of the three criteria required, disclosure is no longer mandatory.
    - Example of mitigation that does not fit criteria:
        - Bringing in a new industry after a longtime industry has vacated but new industry pays less and brings in less taxable contributions.

- The required disclosures should be made only for the current period even if comparative financial statements are presented.
- A government unit may find that a disclosure required by the provisions of Statement 102 overlaps disclosures required by other GASB guidance. In that instance, the disclosures should be combined to avoid unnecessary duplication (for example, a subsequent event disclosure would be combined with the concentrations or constraints disclosure). The note disclosure requirements of other Statements may be met by the note disclosures required by Statement 102.
- As previously noted, the disclosure criteria should be assessed for the primary government and all other reporting units that report a liability for revenue debt. If the information is the same for more than one reporting unit, that information should be combined in a manner that avoids unnecessary duplication.
- In addition, as with all disclosures, a governmental unit needs to consider the disclosures for Statement 102 in light of the guidance in paragraph 63 of GASB Statement No. 14, *The Financial Reporting Entity*, as amended.

Notes to the Financial Statement (Illustrative Examples)

Provided below are illustrative disclosure examples for Carolina County, North Carolina.

Example 1:

Facts/Assumptions: Carolina County has a June 30, 2025, fiscal year end. The County was notified on August 10, 2025, that its largest taxpayer, ABC Corporation, will end its operations by December 31, 2025. The County has determined that it is more likely than not that ABC Corporation's operations will end shortly (within one year) after the County's financial statements are issued. ABC Corporation's last property tax payment was 25% of the total revenues for the primary government. In addition, it is estimated that the 3,000 employees of ABC Corporation pay property taxes that represent 31% of the total revenues for the primary government. The structure of the facility makes it unlikely that a new tenant will acquire or occupy the facility, and it is anticipated that most of the employees are more likely than not to move out of the County by June 30, 2026, because of the lack of employment opportunities. The County's financial statements are expected to be issued in October 2025.

Conclusion: Carolina County should include a disclosure in its June 30, 2025, financial statements. The concentration of property tax revenue with ABC Corporation and its employees is known prior to the issuance of the financial statements and makes the County vulnerable to the risk of substantial impact. An event (closure) that could cause a substantial impact is more likely than not to begin to occur within 12 months of the financial statements being issued.

Note Y: Risk Due to Property Tax Revenue Concentration

The County has been notified that the largest employer in the County with a staff of nearly 3,000 employees will cease operations on December 31, 2025. It is estimated that the various tax revenues received by the County that are directly or indirectly related to the operations of this employer and its employees represent 56% of the County's resources for the year ending June 30, 2025. The County's operations could be adversely affected by a substantial decline in revenues associated with this closure.

Example 2:

Facts/Assumptions: Carolina County provides water and sewer services to its citizens and businesses. The water and sewer activities are reported in an enterprise fund (classified as major fund for financial reporting purposes) and the fund has revenue bond debt outstanding. The County is subject to certain State environmental regulations, including those mandated by the State Department of Environmental Quality so that it may comply with the Lead and Copper Rule Revisions (LCRR) mandated by the federal government. The County's financial statements as of June 30, 2025, were issued on October 25, 2025. In December 2024, the State Department of Environmental Quality proposed new regulations that would require all community water systems (CWS) and non-transient non-community (NTNC) water systems to develop an inventory of all service line connections, both system-owned and customer-owned, and annually assess the condition of those lines. The County would need to comply by September 1, 2026. The County has determined that it is more likely than not that this proposed regulation will be approved by December 31, 2025. It is estimated that the proposed regulation would require additional spending at the cost of approximately $1 million by June 30, 2026. The County management has determined that complying with the new regulation by the deadline would substantially impact the services provided by the water and sewer enterprise fund or substantially impact the rates charged by the fund as a result of anticipated increased operating costs beginning in 2026, which would be necessary to comply with the mandate.

Conclusion: Carolina County should include a disclosure in its June 30, 2025, financial statements. The constraint of the proposed regulation by the Department of Environmental Quality is known to the County. It is more likely than not that the proposed regulation will be approved by December 31, 2025, and that the County will be required to comply with the initial requirements of the regulation by September 1, 2026. The proposed regulation makes the water and sewer fund vulnerable to the risk of a substantial impact within 12 months of the financial statements being issued.

Note Z: Risk Due to Mandate Spending

The County's water and sewer operations are subject to environmental regulations established by the State Department of Environmental Quality. The Department of Environmental Quality proposed new regulations that would require all community water systems and non-transient non-community water systems to develop an inventory of all service line connections, both system-owned and customer-owned, and to conduct annual condition assessments. If adopted, it is estimated that the cost of complying with the proposed regulation will result in either a substantial increase in rates of the water and sewer fund or a substantial reduction of services provided by the water and sewer fund.

Conclusion

Several examples of disclosures have been illustrated above; however, the list above is not all inclusive. Other examples would include military base closures, governments with outstanding general obligation debt approaching the 8% assessed valuation limit, and a major airline leaving an airport and the airport having revenue bonds outstanding. GASB 102 will benefit the users of financial statements through better disclosure of the risks a government faces related to concentrations and constraints of resources. The Statement increases transparency by disclosing risk information often known to management and those charged with governance but less likely known to other stakeholders. The anticipated burden of implementing the Statement is expected to be minimal in most instances, as the Statement affects only financial reporting with no impact on accounting. Units will need to use professional judgement and review any qualifying risks. It is important for you to research and consider how the changes might impact your financial reporting processes. We urge you to educate yourself on this Statement. If you have further questions on this memorandum, please contact a member of the State and Local Government Finance Division staff at 919-814-4300 or at SLGFD@nctreasurer.com.