

## REPORTING

### **Note X - Going Concern**

#### INSTRUCTIONS TO PREPARER

Management's evaluation of the government's ability to continue as a going concern for a reasonable period of time involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of conditions or events. The following factors are relevant to that judgment:

- a. The degree of uncertainty associated with the outcome of a condition or event increases significantly the further into the future a condition or event or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management evaluation specific the period for which management is required to take into account all available information.
- b. The size and complexity of the government, the nature and condition of its business, and the degree to which it is affected by external factors affect the judgment regarding the outcome of condition or events.
- c. Any judgment about the future is based on conditions or events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued, when applicable). Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

The following list includes examples of plans that management may implement to mitigate conditions or events that raise substantial doubt about a government's ability to continue as a going concern for a reasonable period of time (examples are not all inclusive).

- a. Plans to dispose of an asset or business:
  - i. Restrictions on disposal of an asset or business, such as covenants that limit those transactions in loan or similar agreements, or encumbrances against the asset or business;
  - ii. Marketability of the asset or business that management plans to sell;
  - iii. Possible direct or indirect effects of disposal of the asset or business.
- b. Plans to borrow money or restructure debt:
  - i. Availability and terms of new debt financing or availability and terms of existing debt refinancing, such as term debt, lines of credit, or arrangements for factoring receivables or sale-leaseback of assets;
  - ii. Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the government;
  - iii. Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral.
- c. Plans to reduce or delay expenditures:
  - i. Feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets;
  - ii. Possible direct or indirect effects on the government and its cash flows of reduced or delayed expenditures.

- d. Plans to increase ownership equity:
  - i. Feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital;
  - ii. Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors.

If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern for twelve months beyond the financial statements date or shortly thereafter, the notes to the financial statements should include disclosure of the following, as appropriate:

- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the government's ability to continue as a going concern for a reasonable period of time as discussed in paragraph 16 of GASB Statement 56,
- b. The possible effects of such conditions and events,
- c. Government officials' evaluation of the significance of those conditions and events and any mitigating factors,
- d. Possible discontinuance of operations,
- e. Government officials' plans (including relevant prospective financial information),
- f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

### **Sample Disclosure – Substantial Doubt Alleviated**

#### Note X – Government Conditions

The (city/county/district) has losses of \$\_\_\_\_\_ in the year ended December 31, 20\_\_\_. As of December 31, 20\_\_\_, its accumulated deficits is \$\_\_\_\_\_.

Management believes the (city/county/district) present cash flows will not enable it to meet its obligations for twelve months from the date of the financials. However, management is working to obtain new long-term financing (describe management's plan). It is probable that management will obtain new sources of financing that will enable the (city/county/district) to meet its obligations for the twelve-month period from the date of the financials.

### **Sample Disclosure – Substantial Doubt Not Alleviated**

#### Note X – Going Concern

The financial statements have been prepared on a going concern basis which assumes the (city/county/district) will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The (city/county/district) has losses of \$\_\_\_\_\_ in the current year. The (city/county/district) has incurred accumulated losses of \$\_\_\_\_\_ as of December 31, 20\_\_\_. Cash flows used in operations totaled \$\_\_\_\_\_ for the year ended December 31, 20\_\_\_.

Management believes these conditions raise substantial doubt about the (city/county/district's) ability to continue as a going concern within twelve months, and a reasonable period from the date of these financials. The ability to continue as a going concern is dependent upon profitable future operations, positive cash flows, and additional financing.