RIVERON

PREPARE FOR CHANGE

GOING CONCERN PLAYBOOK

A comprehensive guide to events and considerations essential to preparing financial statements under going concern assumptions.

Going Concern Step 1: Assess if conditions or events exist that could raise substantial doubt

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<tr><th>ASC Guidance References</th><th>Assessment Process</th><th>Additional Considerations</th></tr>
<tr><td> ASC 205-40-50-1 In connection with preparing financial statements for each annual and interim reporting period, an entity’s management shall evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASC 205-40-50-2 Ordinarily, conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern relate to the entity’s ability to meet its obligations as they become due. Accordingly, management’s evaluation of an entity’s ability to continue as a going concern ordinarily is based on conditions and events that are relevant to an entity’s ability to meet its obligations as they become due within one year after the date that the financial statements are issued. </td><td> Identify information about conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern one year from the date the financial statements are issued or available to be issued when applicable (“issued”). The significance of such conditions and events depends on specific facts and circumstances, and some may have significance only when viewed in conjunction with others. Examples of such conditions or events are: Negative trends: Recurring operating losses, working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios
Other indications of possible financial difficulties: Default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, need to seek new sources or methods of financing or to dispose of substantial assets, significant changes to budgets and forecasts
Internal matters: Work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations
External matters that have occurred: Legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; uninsured or underinsured catastrophe such as a drought, earthquake, or flood</td><td> Given the disruption caused by COVID-19, many entities will face an unprecedented circumstance where future performance and the overall impact to the business is largely unknown. In many cases, this event will create substantial doubt about the ability of an entity to continue as a going concern after the date that the financial statements issued. The current economic situation and financial impact to the entity must be monitored on a regular basis and a detailed analysis documenting the considerations must be completed for each reporting period. Furthermore, the existence of any one or a combination of these micro and macroeconomic factors may not in and of itself indicate that there is substantial doubt about the entity’s ability to continue as a going concern for one year from the date the financial statements are issued. A detailed and comprehensive evaluation of a combination of all factors is necessary in making this determination. </td></tr>
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Going Concern Step 2: Prepare a forecast to evaluate liquidity

ASC Guidance References	Assessment Process	Additional Considerations
ASC 205-40-50-3 Management's evaluation shall be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ***ASC 205-40-50-4*** Management shall evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The evaluation initially shall not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued (for example, plans to raise capital, borrow money, restructure debt, or dispose of an asset that have been approved but that have not been fully implemented as of the date that the financial statements are issued). ***ASC 205-40-50-5*** When evaluating an entity's ability to meet its obligations, management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued: a. The entity's current financial condition, including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit) b. The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements) c. The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued d. The other conditions and events, when considered in conjunction with (a), (b), and (c) above, that may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued. See paragraph 205-40-55-2 for examples of those conditions and events.	Perform and document an initial evaluation of the entity's ability to continue as a going concern. This evaluation must encompass all facts and circumstances that are known or knowable through the date the financial statements are issued and should not include any mitigating management plans that have not been fully implemented (i.e. this evaluation does not consider future equity issuances, debt offerings, asset sales, or expense reductions/delays). Include a consideration of qualitative and quantitative information about current conditions and events as well as entity specific liquidity considerations, such as: ▶ Current liquidity through available lines of credit, liquid investments (considered in cash equivalents), as well cash on hand. ▶ Conditional and unconditional obligations such as debt payments, lease payments, and other commitments known and anticipated within one year. ▶ Decreases in product demand and inability to produce or sell due to government-imposed restrictions. ▶ Impact of potential debt covenant violations including the acceleration of principal repayments due to such violations.	The extent of the current disruption of COVID-19 and its impact on liquidity, operational continuity, and cost management will determine business strategies that have short term and long term impacts for entities affected. When evaluating the ability to meet its current obligations, an entity should consider both the flexibility of its obligations as well as its likelihood of meeting them. The development of a cash flow forecast is essential to fully evaluate an entity's ability to continue as a going concern. Information contained within that forecast will largely vary depending on specific facts and circumstances, including the current and projected financial position of the entity. In situations where significant estimation uncertainty exists and an entity's ability to meet its obligations is questionable, management should consider multiple forecasts in the form of a sensitivity analysis or alternative scenarios. A probability assessment will help with developing the most likely scenario. The uncertain nature of COVID-19, the longevity of business disruption, and the overall impact to future cash flows creates significant challenges in developing forecasts, which will likely cause most entities to consider multiple scenarios and outcomes and perform such a probability assessment. Management should retain evidence supporting the forecasts for audit and control testing purposes. Examples of evidence that can be used to support forecasted results include publications supporting expected micro and macro-economic trends, company specific pricing decisions, and customer profiling by industry or geography for revenue assumptions. Tracking and updating forecasts for actual results will serve as the best form of evidence to support the accuracy and reasonableness of the forecast. Lastly, management should take into consideration any expected relief from recent stimulus packages that have been offered through the CARES Act. For a summary of benefits offered through the CARES Act, please refer to the information contained within the following link. https://riveron.com/posts/bill-offers-potential-tax-relief/

Going Concern Step 3: Consider management's plans to alleviate substantial doubt

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ASC 205-40-50-6
When relevant conditions or events, considered in the aggregate, initially indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (and therefore they raise substantial doubt about the entity's ability to continue as a going concern), management shall evaluate whether its plans that are intended to mitigate those conditions and events, when implemented, will alleviate substantial doubt about the entity's ability to continue as a going concern.
ASC 205-40-50-7
The mitigating effect of management's plans shall be considered in evaluating whether the substantial doubt is alleviated only to the extent that information available as of the date that the financial statements are issued indicates both of the following:
a. It is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued.
b. It is probable that management's plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.
ASC 205-40-50-8
The evaluation of whether it is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued shall be based on the feasibility of implementation of management's plans in light of an entity's specific facts and circumstances. Generally, to be considered probable of being effectively implemented, management (or others with the appropriate authority) must have approved the plan before the date that the financial statements are issued. Paragraph 205-40-55-3 provides examples of plans that management may implement and information that management should consider for each plan in evaluating the feasibility of the plans.
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Create plans to mitigate the impacts of the adverse events and conditions, if, after considering the events and conditions discussed in steps 1 and 2, substantial doubt remains about the ability of the entity to continue as a going concern within one year after the date that the financial statements are issued. Management will also need to make a determination as to whether it is probable that the adverse events and conditions, will be mitigated and if such plans can be effectively implemented. Management mitigation plans need to take the following into consideration:
▶ Plans to dispose of assets

Restrictions on disposal of assets, such as loan covenants limiting such transactions or existing encumbrances against assets
Marketability of the assets that management plans to sell
Direct and indirect effects from the disposal of assets, on business continuity and future financial performance

▶ Plans to borrow money or restructure debt

Availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets
Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity
Possible effects of management's borrowing plans on existing loan restrictions and the sufficiency of available collateral

▶ Plans to reduce or delay expenditures

Economic feasibility of plans to reduce overhead or administrative expenditures, postpone maintenance or research and development projects, lease rather than purchase assets, etc.
Possible direct or indirect effects of reduced or delayed expenditures, on business continuity and future financial performance

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The actions taken must be supported by management, directors, and shareholders. Management's plan to alleviate substantial doubt is not simply an accounting decision, but a formalized plan to meet obligations for a year after the financial statements are issued. This plan will be disclosed within the financial statements and could have an impact on investor confidence and an impact on future operations.
Management may consider various actions and alternatives to allow for the entity to continue to operate as a going concern in the face of significant uncertainty. Management must consider the feasibility of the alternatives as of the date the financial statements are issued. Additional considerations include whether the appropriate approvals have been granted as of the issuance date of the financial statements, whether the implementation of the planned action is within management's control, and whether the execution of such planned actions would be effective. These considerations are highly subjectivity in nature, especially considerations around whether the management's planned actions will be effective.
Summarized below are key qualitative considerations in determining if management's plans meet the "probable" threshold (generally interpreted as 75% - 80% chance of occurring, under US GAAP), and whether management has the ability to execute as well as the intent to execute, such plans.
▶ Plans to dispose of assets
In order to consider plans to dispose of assets or a collection of assets, via a sale, as part of a plan to address substantial doubt, management (and the board of directors depending on structure of organization, significance of the transaction and entity level controls) must have formal approval, as of the date the financial statements are issued. Given the current uncertainty induced by COVID-19, careful consideration should be given to the lack of marketability and the amount of consideration expected from the disposal of the assets based on the current market prices.
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ASC Guidance References	Assessment Process	Additional Considerations
ASC 205-40-50-10 As required in paragraph 205-40-50-7, management shall further assess its plans that are probable of being effectively implemented to determine whether it is probable that those plans will mitigate the conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. In this assessment, management shall consider the expected magnitude and timing of the mitigating effect of its plans in relation to the magnitude and timing of the relevant conditions or events that those plans intend to mitigate.	▶ **Plans to increase ownership equity** • Feasibility of plans to issue equity, including existing or committed arrangements to raise additional capital • Existing or committed agreements to reduce or accelerate dividends/distributions. **Note:** This list is not all-inclusive and represents examples of common strategies that management often utilizes to mitigate conditions and events that create substantial doubt.	▶ **Plans to borrow money or restructure debt** In addition to having received approval for any expected debt financings, in order for such financing to be considered in management's plan to address substantial doubt, the lender must also have given approval for such a financing with an executed agreement in place. Without an executed financing agreement or formal approval from the lender, a planned debt financing is not considered probable. ▶ **Plans to reduce or delay expenditures** Generally, management has the inherent approval to run day-to-day operations and therefore, most management plans incorporate cash management strategies that involve reductions and delays in operating and capital expenditures. Management's plans, including reducing operating expenditures, capital expenditures, and research and development costs in order to meet current cash flow needs, should give due consideration to existing contractual obligations. Other examples of discretionary reduction in expenditures include reduction to headcount or furloughing employees, elimination of consulting fees, salesforce reductions, and lowering expenditures on inventory. ▶ **Plans to increase ownership equity** Management needs to have a formal plan in place for any planned equity offerings as of the date the financial statements are issued. Careful consideration should be given to the nature of the offering, expected proceeds, future dividend payments, and legal restrictions preventing equity offerings, if applicable.

Going Concern Step 4: Prepare financial statement disclosure

ASC Guidance References	Assessment Process	Additional Considerations
ASC 205-40-50-12 If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is alleviated as a result of consideration of management's plans, an entity shall disclose in the notes to financial statements information that enables users of the financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the notes): a. Principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans) b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations c. Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern. ***ASC 205-40-50-13*** If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is not alleviated, the entity shall include a statement in the notes to financial statements indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Additionally, the entity shall disclose information that enables users of the financial statements to understand all of the following: a. Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations c. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. ***ASC 205-40-50-14*** If conditions or events continue to raise substantial doubt about an entity's ability to continue as a going concern in subsequent annual or interim reporting periods, the entity shall continue to provide the required disclosures in paragraphs 205-40-50-12 through 50-13 in those subsequent periods. Disclosures should become more extensive as additional information becomes available about	**Disclose when substantial doubt is raised but ss alleviated by management's plans (substantial doubt does not exist)** When management's plan alleviates substantial doubt about the entity's ability to continue as a going concern, prepare adequate financial statement disclosures that discuss the conditions and events as well as managements plans to alleviate that substantial doubt. Below is an example of such a disclosure: "Our consolidated financial statements have been prepared on a going concern basis which assumes we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. The entity has a board approved plan which projects that the entity's existing working capital can fund its operations for one year after the financial statements are issued. This plan is based on management's best estimate and assumptions for sales of XYZ, Due to the inherent uncertainty in achieving the forecasted global revenues in the plan, the entity has identified certain forecasted expenses that can be reduced during the second half of 2020 and through the first quarter of 2021 if revenues are less than forecasted or if the entity is not able to raise additional equity or debt financing during the interim period. The identified cost cutting actions could include a reduction of certain discretionary selling, general and administrative expenses. Management has evaluated that, if required, the cost cutting measures described above could be effectively implemented during the second half of 2020 and through the first quarter of 2021, and that when implemented, would allow the entity to reduce its working capital requirements. Thus, Management has concluded that there is not substantial doubt that the entity can meet its obligations as they become due within one year after the financial statements are issued." **Disclosure when substantial doubt is raised and is not alleviated by management's plans (substantial doubt does exist)** If management's plan does not alleviate substantial doubt about the entity's ability to continue as a going concern, update the basis of presentation section of the financial statements, to disclose the conditions and events that trigger the substantial doubt as well as management's plan	Depending on the nature of management's plan and the impact that plan could have on the entity, significant disclosure is often required. For example, if the entity can reduce capital expenditures by 50%, so as to mitigate the conditions and events that raised substantial doubt about the entity's ability to continue as a going concern, the disclosure need not be overly significant. However, if a combination of necessary actions requires different levers to be pulled, the entity is required to disclose management's plan, including the expected or potential impact to the entity, in greater detail. These disclosures can oftentimes be complex and may require a significant amount of judgement in determining the extent of the disclosure. If a determination is made that management's plans do not alleviate the substantial doubt about the entity's ability to continue as a going concern, the entity shall include a statement in the notes to financial statements indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Such disclosures are often detailed and significant in nature. Additionally, the auditors' report will include a modified opinion that contains an emphasis of matter paragraph disclosing the substantial doubt. Management will need to consider revising their plans and forecasts, for ongoing impacts and updates at each reporting period. The disclosure within the financial statements will also need to continue to be monitored each reporting period as the circumstances continue to change, the impact of COVID-19 becomes more known by the entity and more information surrounding the spread of the disease continues to be released. Auditors will generally require discussion on the impact of the disease on the business of the entity, in the financial statements, regardless of whether it results in substantial doubt or not. Management should be prepared to add and update this information in financial statements (both annual and interim) for the actual impacts and expected future impacts. Most audit firms are requiring audit teams to consult with experts on this topic, prior to issuance of the financial statements. Such consultations are time consuming since they require an additional level of review. Consulting with auditors early in the audit process may be worthwhile to determine

ASC Guidance References	Assessment Process	Additional Considerations
the relevant conditions or events and about management's plans. An entity shall provide appropriate context and continuity in explaining how conditions or events have changed between reporting periods. For the period in which substantial doubt no longer exists (before or after consideration of management's plans), an entity shall disclose how the relevant conditions or events that raised substantial doubt were resolved.	to alleviate that substantial doubt and the fact that substantial doubt about the entity's ability to continue as a going concern continues to exist. Below is an example of such a disclosure: "Furthermore, the global COVID-19 pandemic could have a negative impact on our financial position and results of operations. Negative impacts could include but are not limited to: our ability to sell our oil and gas production, reduction in the selling price of our oil and gas, failure of a counterparty to make required hedge payments, possible disruption of production as a result of worker illness or mandated production shutdowns, our ability to maintain compliance with loan covenants and/or refinance existing indebtedness, and access to new capital. These conditions described above raise substantial doubt regarding the entity's ability to continue as a going concern. The entity's ability to continue as a going concern is dependent upon its ability to utilize the resources in place to generate future profitable operations, to develop additional acquisition opportunities, and to obtain the necessary financing to meet its obligations and repay its liabilities arising from business operations when they come due. Management believes the entity will be able to continue to develop new opportunities and will be able to obtain additional funds through debt and / or equity financings to facilitate its development strategy; however, there is no assurance of additional funding being available. These consolidated financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the entity have to curtail operations or be unable to continue in existence."	what levels of review are required, in an effort to avoid delays in issuing the financial statements.

Decision Flowchart

ASC 205-40-55-1 *The following flowchart depicts the decision process to follow for evaluating whether there is substantial doubt about an entity’s ability to continue as a going concern and determining related disclosure requirements.*