

GASB Highlights Existing Guidance on ESG Reporting

Environmental, social, and governance (ESG) reporting is a hot topic for investors, credit rating agencies, preparers, and auditors. State and local governments are not exempt from increasing pressure to disclose additional information; however, most of the ESG reporting frameworks developed to date focus on the private sector. On May 31, 2022, GASB issued a [paper](#) highlighting the intersection of ESG topics with existing GASB standards.

This paper will do little to quell the demand for more ESG governmental reporting. A request for guidance on environmental credits has been on GASB's potential topic list since 2013. GASB's advisory council members ranked this topic in the top 10 of all pre-agenda research and monitoring activities and potential topics in 2022; and in the top third in 2016, 2020, and 2021.

GASB's ESG Definition

There is no single consistent ESG definition; therefore, GASB considered the following concepts:

- Environmental matters relate to how nature impacts a government or how a government performs as a steward of nature.
- Social matters relate to how a government manages relationships with its employees, suppliers, resource providers (such as taxpayers and customers), and the community.
- Governance matters relate to the structure and processes associated with how a government is managed and controlled.

See [Appendix A](#) for examples.

Environmental Matters

The objectives of existing GASB standards may intersect with environmental matters (as well as social or governance issues) in the following areas:

Capital Assets – Environmental matters may intersect with the useful life and residual value determinations for capital assets. Environmental matters also may intersect with asset impairment, such as permanent damage caused by a flood. GASB Codification Section 1400, *Reporting Capital Assets*

Certain Asset Retirement Obligations (ARO) –

Liabilities and expenses are related to the cost of actions a government is legally required to take when permanently removing an asset from service, e.g., decommissioning of nuclear reactors. Laws, regulations, and subsequent changes are considered in measuring, and possibly remeasuring, the liability and expense amounts recognized. The following required disclosures may intersect with environmental matters:

- Nature and source of AROs (whether they are a result of federal, state, or local laws or regulations, contracts, or court judgments)
- Estimated remaining useful life of the associated capital assets
- Restricted assets set aside for ARO payments if a government is subject to legal, regulatory, or contractual requirements to provide funding and assurance

GASB Codification Section A10, *Certain Asset Retirement Obligations*

Claims & Judgments – The accrual and disclosure of loss contingencies require an estimation of the possible loss; for example, self-insurance claims or environmental-related judgments (fines, penalties, and civil wrongs arising from exposure to a toxic substance). GASB Codification Section C50, *Claims and Judgments*

Landfill Closure – The costs of closing municipal solid waste landfills (MSWLF) and caring for them after closure are required to be recognized as liabilities and expenses while the landfill is in operation. Laws and regulations, and changes thereto, are considered in measuring, and possibly remeasuring, the amount of the liabilities and expenses recognized. Required disclosures that may intersect with environmental matters include:

- Nature and source of the MSWLF closure and postclosure care requirements
- Estimated total closure and postclosure care costs remaining to be recognized
- MSWLF capacity percentage used to date
- Estimated remaining MSWLF life in years
- How closure and postclosure care financial assurance requirements are being met

GASB Codification Section L10, *Landfill Closure and Postclosure Care Costs*

Pollution Remediation Obligations – Governments that are obligated to remediate pollution (including those assumed from the private sector) are required to recognize related liabilities and expenses. Laws, regulations, and subsequent changes are considered in measuring, and possibly remeasuring, the liability and expense amounts recognized. Required disclosures include the nature and source of the pollution remediation obligations. GASB Codification Section P40, *Pollution Remediation Obligations*

Public Entity Risk Pools – For a public entity risk pool, if a portion of the premium is specifically identified as being collected for a future catastrophe (a destructive fire, earthquake, windstorm, explosion, or similar event resulting in substantial losses), that amount is required to be recognized as revenue over the contract period. The premium that is charged (and recognized as revenue) may intersect with environmental matters. GASB Codification Section Po20, *Public Entity Risk Pools*

Social Matters

Social matters intersect with the notion of being publicly accountable to citizens in many GASB standards.

Related Party Transactions – Governments are required to disclose related party transactions if the substance of the transactions is significantly different from their form because of the involvement of related parties, e.g., selling real estate at a price that differs significantly from its appraised value. GASB Codification Section 2250, *Additional Financial Reporting Considerations*

Reporting Entity & Component Units – One factor to consider when identifying major component units is that the services provided by the component unit to the citizenry are such that reporting separate information about them is considered essential to the financial statement users. Elected officials are held accountable to the public for their policy decisions, regardless of whether those decisions are carried out directly by the elected officials through the operations of the primary government or by their designees through the operations of legally separate organizations that are created by and a part of the primary government. In addition, governance matters may intersect with the note disclosure requirements for the primary government, including a brief description of the component units within its reporting entity and its relationship to them and the nature of its accountability for those organizations. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*

Special Assessments – Governments recognize special assessments for capital improvements or services that are to be provided by the government and intended to benefit a particular property owner or group of property owners rather than the general citizenry, which may intersect with social matters because it is an indication of how the government manages its relationships with those particular property owners. GASB Codification Section S40, *Special Assessments*

Tax Abatements – Governments that enter into tax abatement agreements or whose taxes are reduced by other governments' tax abatements are required to disclose information that may intersect with social matters because of the reduction in tax revenues from an individual or entity that results from the agreement and because it is an indication of how the government manages its relationships with those particular taxpayers. GASB Codification Section T10, *Tax Abatements*

Unemployment Compensation Funds – State governments are required to report unemployment compensation benefit plans in an enterprise fund, which intersects with social matters because it provides an indication of how the government manages its relationship with citizens. GASB Codification Section U50, *Unemployment Compensation Benefit Plans*

Governance Matters

Governance matters intersect with the notion of being publicly accountable to citizens in many GASB standards. These items may intersect with social issues as well.

Joint Ventures & Jointly Governed Organizations – The nature of a government’s involvement in joint ventures, related organizations, and jointly governed organizations, as well as the factors considered to identify those governance structures (such as ongoing financial interest, ongoing financial responsibility, and equity interests) may intersect with governance matters. GASB Codification Section J50, *Accounting for Participation in Joint Ventures and Jointly Governed Organizations*

Termination Benefits – In the period in which an employer becomes obligated for termination benefits and in any additional period in which employees are required to render future service to receive involuntary termination benefits, the employer is required to disclose a description of the termination benefit arrangement in notes to financial statements—for example, the types of benefits provided, the number of employees affected, and the period of time over which benefits are expected to be provided. GASB Codification Section T25, *Termination Benefits*

Bankruptcies – Governments that file for Chapter 9 bankruptcy have required disclosures that may intersect with governance and social matters, including:

- Pertinent conditions and events that gave rise to the bankruptcy petition
- Expected or known effects of such conditions and events
- Significance of those conditions or events on the government’s level of service and operation
- Possibility of termination of the government

GASB Codification Section Bn5, *Bankruptcies*

Post-Employment Benefits – A net pension—or other post-employment benefit plan (OPEB)—liability and expenses, related to employee benefit plans, are required to be recognized by the government. Governance matters (and social matters, as well) may intersect with the note disclosure requirements for pensions and OPEB. Various GASB Codification sections

Conclusion

We will continue to follow this developing situation. If you have questions about these changes, contact one of our professionals today. For more information, visit forvis.com.

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Appendix A

Common ESG matters, not all-inclusive

Environmental	Social	Governance
<ul style="list-style-type: none"> • Climate change • Ecological impacts, such as pollution • Energy management, such as energy-efficient buildings • Greenhouse gas emissions • Litigation risk (for example, environmental contamination) • Policies and regulations • Raw material sourcing • Renewable energy • Water and waste management 	<ul style="list-style-type: none"> • Community relations • Diversity, equity, and inclusion • Employee health and safety • Human capital development • Labor management • Privacy and data security • Service quality and citizen safety 	<ul style="list-style-type: none"> • Antibribery and anticorruption • Management ethics • Leadership • Organizational resiliency • Compensation and benefits • Management structure • Audits • Internal controls • Transparency