
Intersection of Environmental, Social, and Governance Matters with Governmental Accounting Standards

INTRODUCTION

Environmental, social, and governance (ESG) reporting is an area of growing focus for a wide range of interested parties, including investors, credit rating agencies, preparers and auditors of state and local government financial statements, the citizenry, policy influencers, and policymakers (the stakeholders of the Governmental Accounting Standards Board, or GASB). ESG reporting includes a broad spectrum of quantitative and qualitative information. The GASB's stakeholders seek to understand the effects of relevant ESG matters on a government's cash flows, financial position, and fiscal accountability. As a result, in response to interest from stakeholders, the GASB staff has documented ways in which ESG issues intersect with existing standards.¹ The purpose of this document is to provide an overview of the intersection of ESG matters with the GASB's authoritative guidance.²

ESG matters encompass a much broader range of topics than those covered by governmental accounting and financial reporting standards. As will be discussed in this document, GASB's Conceptual Framework grounds its authoritative guidance in accountability (as the objective from which all other financial reporting objectives are derived), due in no small part to the nature of governments. The development of GASB standards is inherently conscious of governments' activities, as well as the legal, operational, and regulatory framework in which they function. The GASB has not issued standards with the specific intention of informing what are now known as ESG matters. Some ESG-type issues have always been, and remain, inherent in

¹ The GASB staff used the *GASB Codification of Governmental Accounting and Financial Reporting Standards* for the basis of the review, and references to the applicable GASB Codification sections are made throughout this memorandum. GASB standards that were issued by the Board but that were not yet effective at the time of the staff review also were considered. However, current technical agenda projects being deliberated by the Board were not considered.

² The views expressed within this document are those of the GASB staff; official positions of the GASB are reached only after extensive due process and deliberations. Accordingly, this document does not establish or modify generally accepted accounting principles (GAAP) for state and local governments. Although the GASB issues authoritative guidance that establishes GAAP for state and local governments, the Board does not enforce or guarantee adherence with the requirements. In addition, the examples included in this memorandum are illustrative and are not intended to convey additional requirements beyond those in existing GAAP.

accountability and as a result, some GASB standards intersect with matters that may now be considered as falling under the general rubric of ESG.

When applying current governmental accounting standards, a government may need to consider the effects of certain material ESG matters, similar to how a government considers other changes in its operating environment that have a material effect on the financial statements and related notes. The way in which a government may consider the effects of ESG matters varies based on the accounting standards being applied and the nature and significance of the ESG matter. Some ESG matters may affect amounts reported and disclosed in the financial statements, and still others may not have any effect on the financial statements.

This document is organized as follows:

1. Overview of ESG reporting
2. Broad intersection of ESG matters with accountability
3. Specific intersections of ESG matters with GASB standards.

OVERVIEW OF ESG REPORTING

ESG matters encompass a broader range of topics than those covered by accounting and financial reporting standards. There are several organizations that have established frameworks that an entity may leverage for voluntary reporting purposes other than general purpose external financial reporting in compliance with generally accepted accounting principles (GAAP). However, most of the frameworks that have been developed have focused on the private sector, either generally or for specific industries. There are some government-oriented frameworks, though fewer.

A single consistent definition of ESG is not prevalent in practice today. Therefore, it is important to define how the GASB staff considered these three concepts only for purposes of this document. The following working definitions were used:

- 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.

The following table includes broad examples of topics that interested parties commonly consider as ESG matters (but is not intended to be 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

BROAD INTERSECTION OF ESG MATTERS WITH ACCOUNTABILITY

The notion of accountability permeates the GASB’s conceptual framework and its standards. GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that accountability is the cornerstone of all financial reporting in a representative democracy and that a government must answer to its citizens to justify (1) the raising of public resources and (2) the purposes for which the resources are used. Furthermore, “governmental accountability is based on the belief that the citizenry has a ‘right to know,’ a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government’s duty to be publicly accountable in a democratic society.” (paragraph 56)

Demonstrating accountability necessarily takes many forms, including financial statements; notes to financial statements, which communicate information that explains, describes, or supplements the financial statements and is essential to users in making economic, social, or political decisions or assessing accountability; required supplementary information, which is essential for placing the financial statements and notes to financial statements in an appropriate operational, economic, or historical context; or supplementary information, which is supporting information for placing the

financial statements and notes to financial statements in an appropriate operational, economic, or historical context. Those methods of communication, within external financial reporting, are not the only ways in which a government provides information on its accountability. Accountability also is demonstrated by a government outside of its general purpose external financial reporting.

ESG matters, predominantly social and governance matters, intersect with the notion of being publicly accountable to citizens in many GASB standards. At the broadest level, adherence to GAAP may be viewed as a governance matter. Concepts Statement 1 provides that to demonstrate accountability, financial reporting should provide information regarding a government’s stewardship responsibilities (reflected in fund reporting and budgetary reporting) and interperiod equity (measures of whether current-year revenues were sufficient to pay for the services provided that year, thereby avoiding either consuming accumulated reserves or shifting a burden to future taxpayers for past services).

The following are examples of how the objectives of GASB’s authoritative guidance that support assessments of accountability intersect with ESG matters:

Topic	Codification Reference	Summary
GAAP and Legal Compliance	GASB Codification Section 1200, “Generally Accepted Accounting Principles and Legal Compliance”	Presenting fairly and providing full disclosure of funds and activities of governments and demonstrating compliance with finance-related legal and contractual provisions intersects with governance matters.
Fund Accounting	GASB Codification Section 1300, “Fund Accounting”	Funds intersect with social and governance matters because many are created based on various legal provisions to achieve sound financial administration and accountability to resource providers, including taxpayers and grantors.
Economic Resources Measurement Focus and Accrual Basis of Accounting	GASB Codification Section 1600, “Basis of Accounting”	The government-wide financial statements are required to be prepared using the economic resources measurement focus and accrual basis of accounting, which intersects with governance matters because transactions are recognized as they occur, providing

Topic	Codification Reference	Summary
		greater transparency of assets and liabilities of a government and information to assess interperiod equity.
Defining the Financial Reporting Entity	GASB Codification Section 2100, “Defining the Financial Reporting Entity”	One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of elected officials, which intersects with social and governance matters. Elected officials are 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.
Management’s Discussion and Analysis (MD&A)	GASB Codification Section 2200, “Annual Comprehensive Financial Report”	MD&A is required to provide an objective and easily readable analysis of the government’s financial activities based on currently known facts, decisions, or conditions, which may intersect with ESG matters. ESG matters may be relevant to a government’s required explanations of (1) the analysis of overall financial position, (2) why financial position improved or deteriorated, (3) why there is a variance between the original and final budget amounts and whether those variances are expected to have a significant effect on future services, and (4) changes in the condition of infrastructure assets (for governments that use the modified approach).

Topic	Codification Reference	Summary
Going Concern and Subsequent Events	GASB Codification Section 2250, “Additional Financial Reporting Considerations”	<p>Going concern considerations and indicators intersect with ESG matters. The consideration of whether a government is a going concern may include internal matters such as work stoppages or other labor difficulties and external matters such as loss of a principal customer, taxpayer, or supplier and uninsured or underinsured catastrophes such as an earthquake or flood.</p> <p>Subsequent events, whether recognized in the financial statements or disclosed in notes, may intersect with ESG matters. For example, governments may disclose events such as a significant local employer’s major casualty loss or the government’s loss of a facility due to a tornado that occurred after the end of the fiscal year.</p>
Budgetary Reporting	GASB Codification Section 2400, “Budgetary Reporting”	Although the scope and method of state and local government budgetary practices are outside of governmental accounting and financial reporting standards, those standards do require presentation of budgetary comparisons. Information that compares the actual results for the year with the adopted budget provides accountability for whether a government operated within its legally adopted budget, which intersects with governance matters.
Statistical Section	GASB Codification Section 2800, “Statistical Section”	The objective of the statistical section is to provide users with additional historical perspective, context, and detail to assist in using the information in GAAP-based financial reports to understand and assess a government’s economic condition. The five categories of statistical section

Topic	Codification Reference	Summary
		information (financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information), and related narrative explanations, may intersect with social and governance matters.

SPECIFIC INTERSECTIONS OF ESG MATTERS WITH GASB STANDARDS

Environmental Matters

The following are instances in which the objectives of the GASB’s standards may intersect with environmental matters.

Topic	Codification Reference	Summary
Capital Assets	GASB Codification Section 1400, “Reporting 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 damaged caused by a flood.
Certain Asset Retirement Obligations	GASB Codification Section A10, “Certain Asset Retirement Obligations”	Asset retirement obligation (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. For example, the decommissioning of nuclear reactors or the dismantling and removing of sewage treatment plants. Laws and regulations, and changes thereto, are considered in measuring, and possibly remeasuring, the amount of the liabilities and expenses recognized. Information such as the (1) nature and source of a government’s AROs (whether they are a

Topic	Codification Reference	Summary
		result of federal, state, or local laws or regulations, contracts, or court judgments), (2) estimated remaining useful life of the associated capital assets, and (3) setting aside of restricted assets for payment of the AROs if a government is subject to legal, regulatory, or contractual requirements to provide funding and assurance, is required to be disclosed. This information may intersect with environmental matters.
Claims and Judgments	GASB Codification Section C50, “Claims and Judgments”	The accrual and disclosure of loss contingencies requires an estimation of the possible loss, which may intersect with environmental matters; for example, self-insurance claims or environmental-related judgments (fines, penalties, and civil wrongs arising from exposure to a toxic substance).
Investments	GASB Codification Section I50, “Investments”	Governments are required to measure some investments, including marketable securities, life settlement contracts, interest-earning investment contracts, and land and other real estate held as an investment by endowments, at fair value. Valuation approaches used to determine fair value, such as the market approach, cost approach, and income approach, rely on various market expectations that may intersect with environmental (or social) matters; for example, determining the fair value of investments in equity securities.
Landfill Closure	GASB Codification Section L10, “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

Topic	Codification Reference	Summary
	and Postclosure Care Costs”	regulations, and changes thereto, are considered in measuring, and possibly remeasuring, the amount of the liabilities and expenses recognized. Required disclosure of information that may intersect with environmental matters includes (1) the nature and source of the MSWLF closure and postclosure care requirements, (2) the estimated total closure and postclosure care costs remaining to be recognized, (3) the percentage of MSWLF capacity used to date, (4) the estimated remaining MSWLF life in years, and (5) how closure and postclosure care financial assurance requirements are being met.
Pollution Remediation Obligations	GASB Codification Section P40, “Pollution Remediation Obligations”	Governments that are obligated to remediate pollution (including those assumed from the private sector) are required to recognize liabilities and expenses. Laws and regulations, and changes thereto, are considered in measuring, and possibly remeasuring, the amount of the liabilities and expenses recognized. Required disclosure of information that may intersect with environmental matters include the nature and source of the pollution remediation obligations.
Public Entity Risk Pools	GASB Codification Section Po20, “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. As a result, the premium that is charged (and recognized

Topic	Codification Reference	Summary
		as revenue) may intersect with environmental matters.

Social Matters

As discussed previously, social matters intersect with the notion of being publicly accountable to citizens in many GASB standards. The following are additional instances in which the objectives of the GASB’s standards may intersect with social matters.

Topic	Codification Reference	Summary
Capital Assets	GASB Codification Section 1400, “Reporting Capital Assets”	Social matters (and governance matters, as well) may intersect with the condition of infrastructure assets and other capital assets, which affect the quality of life of the citizenry.
Related Party Transactions	GASB Codification Section 2250, “Additional Financial Reporting Considerations”	Governments are required to disclose related party transactions if the substance of the transactions are significantly different from their form because of the involvement of related parties (for example, selling real estate at a price that differs significantly from its appraised value), which intersects with social matters.
Reporting Entity and Component Units	GASB Codification Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure”	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, which intersects with social matters.

Topic	Codification Reference	Summary
Special Assessments	GASB Codification Section S40, “Special Assessments”	Governments recognize special assessments for capital improvements or services that are to be provided by the government and that are 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.
Tax Abatements	GASB Codification Section T10, “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.
Unemployment Compensation Funds	GASB Codification Section U50, “Unemployment Compensation Benefit Plans”	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.

Governance Matters

As discussed previously, governance matters intersect with the notion of being publicly accountable to citizens in many GASB standards. The following are additional instances in which the objectives of the GASB’s standards may intersect with governance matters.

Topic	Codification Reference	Summary
Reporting Entity and Component Units	GASB Codification Section 2600, “Reporting Entity and Component Unit Presentation and Disclosure”	Governance matters may intersect with the note disclosure requirements for the primary government, including (1) a brief description of the component units within its reporting entity and its relationship to them and (2) the nature of its accountability for those organizations.
Joint Ventures and Jointly Governed Organizations	GASB Codification Section J50, “Accounting for Participation in Joint Ventures and 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.
Termination Benefits	GASB Codification Section T25, “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 in order 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—which may intersect with governance (or social) matters.
Bankruptcies	GASB Codification Section Bn5, “Bankruptcies”	Governance matters (and social matters, as well) may intersect with the required disclosures for governments that file for Chapter 9 bankruptcy, including (1) pertinent conditions and events that gave rise to the petition for bankruptcy, (2)

Topic	Codification Reference	Summary
		<p>expected or known effects of such conditions and events, (3) significance of those conditions or events on the level of service and operation of the government, and (4) possibility of termination of the government.</p>
<p>Postemployment Benefits</p>	<p>Various GASB Codification Sections³</p>	<p>A net pension (or other postemployment benefit plan (OPEB)) liability and expenses, related to applicable 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, including (1) identification of the entity that administers the pension or OPEB plan, (2) description of the benefit terms and the authority under which the benefit terms are established or may be amended, and (3) for defined benefit plans that are administered through a trust that meets specified criteria, information regarding the pension or OPEB plan’s board and its composition.</p> <p>Further, if a pension or OPEB plan is administered through a trust that meets specified criteria, note disclosure requirements for the participating governments also include a description of</p>

³ See GASB Codification Sections P20, “Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” P22, Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” P50, Postemployment Benefits Other Than Pensions—Reporting for Benefits Provided through Trusts That Meet Specified Criteria—Defined Benefit,” P52, Postemployment Benefits Other Than Pensions—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria—Defined Benefit,” Pe5, Pension Plan Administered through Trusts That Meet Specified Criteria—Defined Benefit,” and P050, Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit.”

Topic	Codification Reference	Summary
		<p>the contribution requirements and the authority under which the contribution requirements are established or may be amended, which also may intersect with governance matters.</p> <p>If a pension or OPEB plan is not administered through a trust that meets specified criteria, note disclosure requirements for the participating governments also include (1) a statement that there are no assets accumulated in a trust that meets specified criteria and (2) identification of the authority under which requirements to pay pensions or OPEB as the benefits come due are established or may be amended, which may intersect with governance matters.</p>