



The Names Have Been Changed...

By Michele Mark Levine

Although a full generation has passed since GASB Statement No. 34 was issued, we still see terminology from earlier reporting used in some governments' CAFRs.

Change is the only constant in life.” The Greek philosopher Heraclitus said it approximately 2,500 years ago, and it remains true. Government financial reporting is a case in point. The Governmental Accounting Standards Board (GASB) has kept up a rapid pace of standard setting for over 35 years, with most standards introducing new terminology or attributing specific meanings to existing terms that were formerly used with a wider range of meanings.

Submissions to GFOA’s Certificate of Achievement for Excellence in Financial Reporting (CAFR) Award Program sometimes contain relics of bygone governmental generally accepted accounting principles (GAAP) in the form of outdated terminology. There are also numerous instances of terminology that is specific to one kind of fund or financial statement element being misapplied to others, which has the potential to add confusion to the complexity inherent in a reporting model with more than one measurement focus and basis of accounting.

Although a full generation has passed since GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, was issued, we still see terminology from earlier reporting used in some governments’ comprehensive annual financial

reports (CAFRs). The following are a few to watch out for.

Recommended terminology: *basic financial statements*

In place of: *general purpose financial statements*

While other GASB literature, including several concepts statements, talk about *general purpose financial statements*, references to the set of government-wide financial statements, fund financial statements, and notes to the financial statements that are required by current (post GASB Statement No. 34) GAAP are appropriately referred to as *basic financial statements*.¹

Recommended terminology: *issuance of debt*

In place of: *debt proceeds* (or proceeds from debt)

Context: *other financing sources*

In the governmental funds statement of revenue, expenditures, and changes in fund balance, the other financing source that results from a new debt issue should be referred to as *issuance of debt* rather than *proceeds*. This is because the full face amount of long-term debt issued, rather than the proceeds (the face amount *net* of premiums, discounts, and issuance costs) must be reported.²

Recommended terminology: *inter-fund services provided and used*

In place of: *quasi-external transactions*

Before GASB Statement No. 34 was issued, transactions between funds of a primary government in which the funds exchange an equal or nearly equal value — transactions which, if external, would be classified as exchange or exchange-like — were referred to as *quasi-external transactions* to distinguish them from inter-fund transfers and subsidies. In the current reporting model, they are referred to as *reciprocal interfund activity*.³

To minimize the confusion inherent in a reporting model with two measurement focuses, governments need to use terminology that is appropriate to the measurement focus of the financial statements presented or referred to in their CAFRs. Specifically, *other financing source*, *other financing uses*, and *expenditures* should be used when — and *only* when — referring to governmental financial statements, as those terms only apply to a current financial resources measurement focus and a modified basis of accounting. The term *expense*, including references to pre-paid expenses, should not be used in or when referring to governmental fund financial statements or elements.⁴

Finally, the pre-GASB Statement No. 34 term *fixed assets* should be discarded in favor of *capital assets*. And both fixed asset and long-term debt *account groups* have gone the way of the dinosaurs.

Other GASB statements, admittedly less than ten years old, also seem to be casting long shadows over today's CAFRs.

Recommended terminology: *net investment in capital assets*

In place of: *net position invested in capital assets, net of related debt*

Recommended terminology:

unearned revenue

In place of: *deferred revenue*

To minimize the confusion inherent in a reporting model with two measurement focuses, governments need to use terminology that is appropriate to the measurement focus of the financial statements presented or referred to in their CAFRs.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, changed the names of the components of net position and attributed specific meaning to the term *deferred*. The difference between a government's net capital asset value and the net amount of capital debt outstanding is appropriately — and economically — referred to as the government's *net investment in capital assets* rather than as the *net position invested in capital assets, net of related debt*.

And with the identification of new financial statement elements named *deferred inflows of resources* and *deferred outflows of resources*, funds that are held by a government in advance of being earned should no longer be called *deferred revenue*. Instead, they should be called *unearned revenue*.

Recommended terminology: *fair value or acquisition value*

In place of: *market value*

GASB Statement No. 72, *Fair Value Measurement and Application*, defined the more precise terms *fair value* and *acquisition value* as referring to market-related exit prices and entry prices, respectively. These terms should be used in place of the former, less exact, term *market value*.

One final terminology suggestion is that governments and their auditors should use the term *unmodified* when referring to an independent auditor's report that is "clean."⁵ Modifications to auditors' opinions come in the form of qualified opinions, adverse opinions, and disclaimers of opinion. While it is not technically incorrect to refer to an *unmodified opinion* as an *unqualified opinion*, *unmodified* is a more precise term. It also avoids the ironically negative connotation of being unqualified — something we never want an unfortunate choice of words to imply about us! ■

Notes

1. Governmental Accounting Standards Board (GASB), 2019-2020 *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.), Section (Sec.) 2200, "Comprehensive Annual Financial Report," paragraph .101.
2. GASB Cod. Sec. 2200.737-1.
3. GASB Cod. Sec. 1800, "Classification and Terminology," paragraph .702-9.
4. Instead, governmental fund financial statements should use the caption "prepaid items" or simply "prepaids."
5. American Institute of Certified Public Accountants, *Financial Reporting Center Brief: Summary of Clarified Auditing Reporting Standards* (February 2014).

MICHELE MARK LEVINE is director of GFOA's Technical Services Center.