



The vast majority of state and local governments require their budgets to be balanced, yet most of these government entities continue to face huge shortfalls thanks to unfunded pension and retiree health care promises and short-sighted accounting tricks that are used to make budgets appear balanced.

To provide more transparency and accountability in the budgeting process, Truth in Accounting recommends FACT-based budgeting, which stands for “Full Accrual Calculations and Techniques.” FACT moves beyond cash-based methods to include accrual of all expenses, providing a “full-cost” (and more truthful) basis for budgeting.

FACT-based budgeting records revenues and expenses in the period of activity when revenues are generated, liabilities are increased, and resources are consumed, regardless of when the money is actually received or paid. This type of measurement is useful in budgeting and accounting for situations in which benefits are promised and earned in one year, but not paid until future years.

## FACT-Based Budgeting

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By recording accounts payable and receivable, and thus the change in value of the assets and liabilities, FACT-based budgeting keeps a running tally of what a government owns and owes in economic terms. If a government promises pension benefits in the current period and must pay retirement claims in future periods, the liability and expense should be recorded when the event occurred. When the cash is actually paid, the liability is removed.

### FACT-based budgeting does the following:

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- Presents a complete picture of federal, state and local governments’ financial conditions, especially long-term commitments.
  - Illuminates the long-term effects of current decisions.
  - Recognizes all costs and revenues regardless of when money is paid or received.
  - Provides full cost information, including government employees’ retirement benefits.
  - Supplies information necessary for accurate performance measurements.
- Adopts the use of consolidating budget documents to facilitate the public’s ability to understand governmental financial consequences of the budget.
  - Produces financial statements that people are familiar with and are similar to the balance sheets and income statements companies use.
  - Facilitates the evaluation of budgeted amounts versus the actual revenues earned and costs incurred, because budget documents are presented in the same format as the government’s financial statements.
  - Promotes accountability.
  - Produces financial information that is comprehensive, comparable and consistent.
  - Is harder to manipulate.
  - Provides information necessary to evaluate intergenerational fairness.
  - Provides better information for decision making.