Long-Term Fiscal Fitness

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In many professional sports, athletes have a responsibility to keep fit to build and maintain the level of endurance, strength and agility needed to stay at the top of their game. In sports with year-round play, such as golf, there is a particular need to emphasize fitness because there is no "off season" to dedicate to training and recovery.

Athletes are naturally focused on "physical" fitness, but the philosophy holds true for "fiscal" fitness as well. Building fiscal fitness through the development of a solid foundation in accounting standards that can weather all types of transactions and events is key to maintaining endurance and strength in financial management reporting and accountability.

There is no "off season" anymore in federal financial reporting either. With increasing constraints placed on resources, requirements for quarterly reporting and accelerated due dates, year-round accountability has increased the need for robust accounting standards.

Just as an athlete gets scored on each of his or her games, there are opportunities for the federal government to assess its performance and get valuable feedback as well.

The severity of the financial crisis required the federal government to undertake a number of unprecedented actions. In addition, the American Recovery and Reinvestment Act of 2009 (ARRA)[1] led to the development of a wide variety of new programs, some clearly covered by federal accounting standards and some not. For example:

- The Federal Housing Finance Agency (FHFA) determined that housing-related government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac could not continue to operate safely and soundly and fulfill their critical mission. FHFA placed Fannie Mae and Freddie Mac into conservatorship.
- The Federal Reserve Bank announced in November 2008 that it would initiate a program to purchase the direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks and the mortgage-backed securities of Fannie Mae, Freddie Mac and Ginnie Mae.
- Treasury created the Capital Purchase Program (CPP), a part of the Troubled Asset Relief Program (TARP), to help stabilize and strengthen the U.S. financial system by investing in U.S. financial institutions.
- The Federal Reserve Bank of New York extended credit to limited liability companies to acquire assets from Bear Stearns and American International Group.
- The Housing and Economic Recovery Act of 2008[2] authorized a refundable tax credit for first-time homebuyers to be repaid without interest over a 15-year period.
- On December 19, 2008, Treasury acted to support General Motors and Chrysler, with the requirement that they adopt plans for long-term viability.

The severity of the financial crisis necessitated quick action that must be accounted for after the fact. Many of the proposed solutions are unique and unprecedented and do not have a cookbook answer for accounting and reporting. The full spectrum of the hierarchy of generally accepted accounting principles[3] must be relied upon to fill the gaps in standards.

The newly created programs are generally financed with debt that is expected to be repaid sometime in the future. Some outlays provide at least a glimmer of hope of providing a return on investment to the taxpayer in the future, some represent investments in infrastructure that may reap benefits to the nation over time, while other programs were clearly intended to provide the immediate resources needed to save jobs and stabilize our economy. Good financial reporting should provide reliable information regarding when this debt is expected to be repaid and by whom.

In golf, the players' scores are compared against "par" (the standard score) and each other's score so that individual players can determine how they performed. The players can then analyze the conditions of the playing field and compare that with history to determine whether they are performing better or worse than they have in the past.

Clearly, the federal government has no hope of devising a single bottom-line measure of performance such as "profit" because there are too many other conditions involved that trump profit such as social welfare and policy objectives. However, we can do our best to capture the cost of decisions so that they can be matched to the benefits of those decisions. The true test will be whether costs (that is, expenses in an accrual accounting system) were consistently captured across diverse programs so that such an analysis is possible. As the Federal Accounting Standards Advisory Board (FASAB) reviews emerging issues, we must be prepared to address through standards fiscal transactions and events not anticipated by existing reporting requirements.

The statement of net cost should reveal the best possible measure of cost to the taxpayer, including program-by-program costs for those who are interested. In addition to identifying all the costs, the financial statements should reveal how the federal government financed those costs. For example: Were current expenses paid for by current taxpayers or did liabilities grow? Are assets properly valued and liabilities recognized when incurred? In addition to the statement of net cost and balance sheet, FASAB's current scoring tools include statements on social insurance and sustainability. A key project on FASAB's agenda is the federal reporting model, which focuses on possible improvements to fiscal fitness reporting to taxpayers and others.

Accountants are charged with being good scorekeepers. While we may not have a par against which to analyze the federal government's performance, we can do our best to help the users of federal financial statements determine a "win" from a "loss." For example, the political decision to pass part of the cost of current services to future taxpayers may be viewed as a "win" by current taxpayers, but may also be viewed as a "loss" for the long-term sustainability of the federal government. In either case, the financial statements should be transparent and understandable enough for those win/loss determinations to be made.

End Notes

1. Public Law (P.L.) 111-5.
2. P.L. 110-289.
3. Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Tom L. Allen, CPA, is the chair of the Federal Accounting Standards Advisory Board. Prior to joining FASAB, Allen served as the chair of the Governmental Accounting Standards Board and the state auditor of Utah.