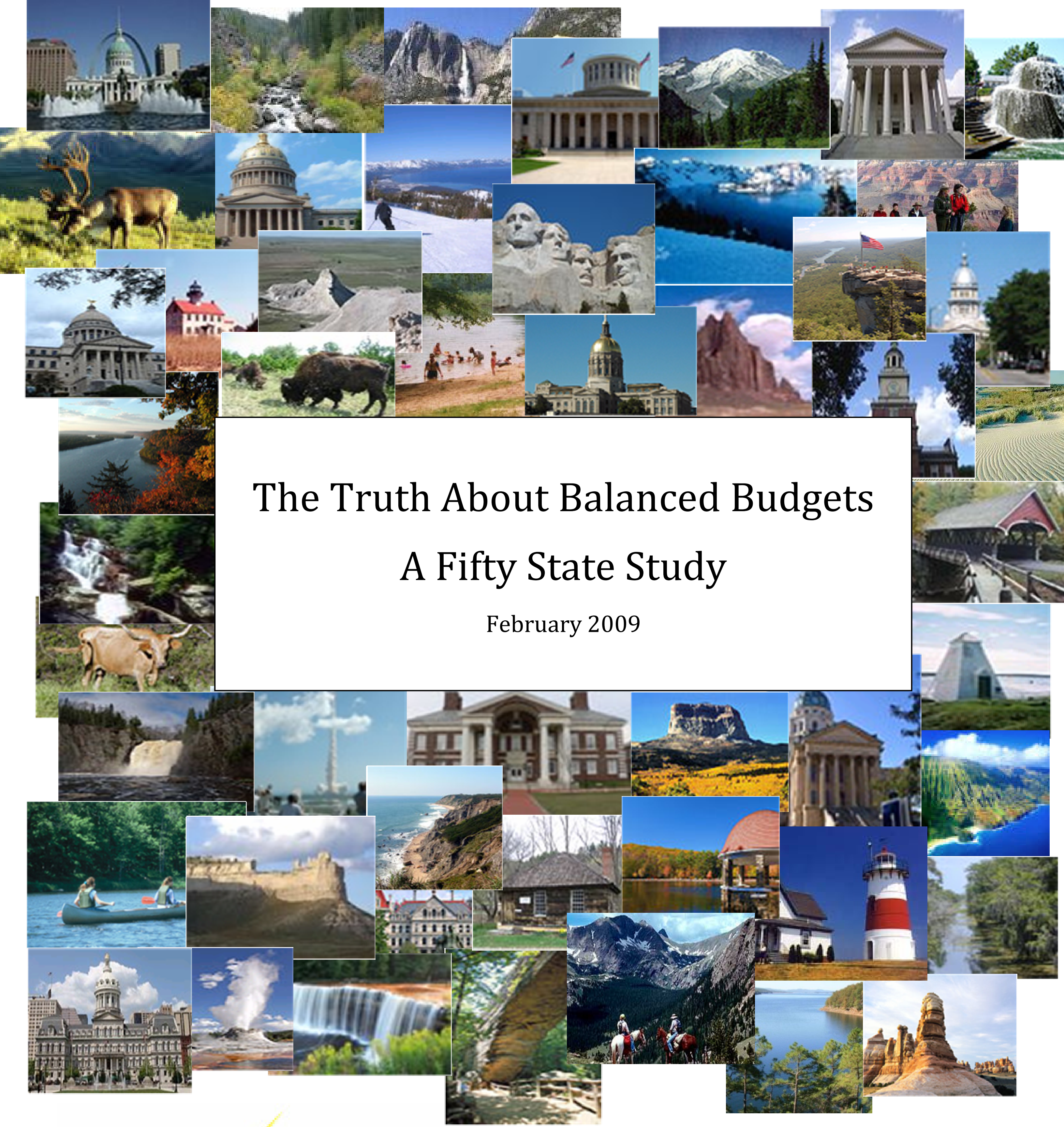


The Truth About Balanced Budgets

A Fifty State Study

February 2009

Institute for Truth in Accounting

1500 Skokie Boulevard, Suite 304
Northbrook, IL 60062
847-835-5200 fax 847-835-3470
www.truthinaccounting.org

TABLE OF CONTENTS

EXECUTIVE SUMMARY

When the Institute for Truth in Accounting began to design "The Truth About Balanced Budgets—A Fifty State Study" in early 2008 our purpose was to widely examine the effect accounting principles and policies have on states' budgeting and financial reporting practices. Experience in Illinois indicated that our home state's budgeting process regularly evaded the intent of our constitutional and statutory requirements for balanced budgets and sound accounting principles.

Now complete, our report discovered that the budgeting and accounting problems we first identified in Illinois are rampant in other states. Our findings include:

- Most state annual reports indicate their budgets are not balanced;
- Despite this fact, states perpetuate the myth that their budgets are balanced;
- Governors and legislatures intentionally circumvent balanced budget requirements endangering fiscal sustainability and evading public scrutiny;
- Billions of dollars in retirement costs are incurred each year but not provided for in state budgets;
- Information required to assess the long-term consequences of current policy decisions is not available;
- Surpluses reported on state financial statements do not report true financial results; and
- Many state annual reports are not published on time.

Back in early 2008 no one foresaw the financial distress that was to develop during the second half of the year. Since then, news of developing fiscal distress in several states shows why the imaginary accounting they use is not useful to understand their financial condition or to predict the real fiscal problems that are now becoming evident. We believe these developments concretely prove our findings.

Accounting deficiencies in the budget process are mainly a consequence of the accounting rules sovereign states chose to use when developing their spending plans. Accounting deficiencies in financial reporting to their constituencies are mainly a consequence of the *Generally Accepted Accounting Principles* (GAAP) states are required to use. Any improvements to these budgeting practices and accounting principles must start with better accounting rules to be used by states intent on telling the truth. This Study proposes several, specific recommendations to the states and to the accounting profession to improve the state governments' reports. GAAP is determined by the Government Accounting Standards Board, an organization we believe may be structurally incapable of remedying the inadequacies of the accounting principles this Study has uncovered.

With the completion of this Study, the baseline data has been collected and we have taken a first step towards understanding the true extent to which budgeting practices and accounting rules empower political choices, good or bad. Given the likelihood of a sustained economic downturn and resulting demand for even more governmental benefits, states will experience increasing financial demands. Making the public policy decisions necessary to endure these pressures will require an honest assessment of current financial conditions and their likely trajectory. Success in navigating these fiscal shoals requires we be honest with ourselves. Simply put:

It requires *Truth in Accounting*.

INTRODUCTION

BACKGROUND OF THE FIFTY STATE STUDY

The Institute for Truth in Accounting (IFTA) was formed in 2002 to encourage the federal government to issue financial information in a manner that allows the public and elected officials to make informed and knowledgeable policy decisions. This information must include the short term and the long term financial consequences of such decisions.

In 2005, our supporters encouraged the IFTA to expand its mission to include the budgeting and accounting practices of the state of Illinois, where the IFTA is based. Our investigation found the following problems:

- The Illinois constitution requires a balanced *budget*[1]. Despite this, Illinois' *financial reports* have shown deficits that have accumulated to more than $20 billion over the last twenty years.
- While the Illinois financial statements admit to a cumulative deficit of $20 billion, they do not report all of the liabilities for public employees' post-employment benefits. If they did, these more truthful reports would show the state is really more than $70 billion in the hole.
- Illinois does not issue its financial report until after the **next year's** budget process has been completed. Because it is issued so far after its *fiscal year end*, this practice keeps important information from public officials and structurally prohibits them from making informed policy decisions.
- The long term consequences of budget decisions are not available to the public and their elected officials.

These shortcomings in Illinois financial reporting have the effect of obscuring the state's true financial condition, and therefore making possible the creation of fiscally unsustainable public policy. The initial purpose of this Study was to determine if these issues also exist in other states.

THE INSTITUTE FOR TRUTH IN ACCOUNTING

Thomas Jefferson stated, "An informed electorate is the basis of a sound democracy." This Founder's wisdom means citizens must be given the information they need to be knowledgeable participants in their units of government. It also recognizes that governments have a special responsibility to fairly present their policies to their citizens and to report the short and long term financial consequences of their elected officials' decisions.

The Institute for Truth in Accounting was created by distinguished financial and public policy experts concerned with the quality of public and private organizations' financial reporting. The IFTA believes that *truthful* information is not always forthcoming from our institutions and that accounting and reporting deficiencies largely contribute to the problem. It is, therefore, the mission

[1] A glossary term is italicized the first time it is used in this document. This does not include terms used in the executive summary.

of the IFTA to inform the public of the importance of truthful accounting and to encourage private and public entities to produce financial reports that are comprehensive, comprehensible, timely, and transparent.

The IFTA is a non-partisan, non-profit, public interest group that does not advocate public policy beyond better and more truthful accounting. We are dedicated to promoting accurate and transparent accounting at all levels of government and private industry. The IFTA strives to expose accounting deficiencies and to promote better and more accessible delivery of accurate government financial data. The IFTA encourages more effective accounting standards. The Institute also computes and publishes accurate government financial information for policymakers, pundits and citizens.

The Institute actively seeks association with other public interest groups that recognize the need to improve financial reporting or want to better understand the financial effects of current budgeting and accounting practices.

www.TruthInAccounting.org

STUDY GOALS AND CONCERNS

TRUTHFUL ACCOUNTING IS ESSENTIAL TO GOVERNMENT ACCOUNTABILITY

The foundational principle of this Study is the idea that all governmental entities, including state governments, derive their just powers from the consent of the governed.[i] Since an informed electorate is the basis for a sound democracy, providing such information is an essential part of *accountability* in government. Government officials have a special responsibility to report on their actions and the results of those actions faithfully with timely and accurate reports.[ii] These reports must transmit truthful information to inform citizens and to guide decisions made by their representatives and other public officials. The Institute for Truth in Accounting defines truthful information as the complete set of facts needed to make knowledgeable decisions. This means information should be complete, understandable, reliable, consistent and comparable from one reporting period to the next. It also means that the information must be produced and transmitted to the users in time to be relevant to the ongoing processes of governing.

STUDY GOALS

The specific goal of this Study is to determine how well the states meet this standard of truthful reporting. To make that determination, we set out to:

- Ascertain if the public and governmental officials have the information needed to make knowledge decisions during states' budget processes and about state governments' accountability and sustainability;
- Review each state's balanced budget requirements;
- Investigate states' claims of balanced budgets to ascertain if the intent of their balanced budget requirements were achieved;
- Survey the availability and *timeliness* of the states' *annual reports*; and
- Investigate if preparing state budgets using *Generally Accepted Accounting Principles* would result in a true presentation of these annual plans and the related financial consequences.

As a part of this Study, we reviewed each state's budgeting and accounting practices. We also compared budgetary transactions to related amounts included in each state's financial reports for fiscal years 2005-2007. To evaluate the timeliness of state financial reports, we calculated the number of days that elapsed between the end of the state's fiscal year and the date on which they issued their annual report. We studied the accounting standards used to prepare state and local governments' annual financial reports. We examined a number of state financial reports, including related notes and required supplementary information, to determine if pension and *other post-employment benefits* were adequately disclosed.

STUDY CONCERNS

IMPORTANCE OF THE BUDGET PROCESS

A state budget is a financial representation of the goals and objectives of elected officials.[iii] The budget process of a state government is the principal vehicle through which the state legislatures and governors annually allocate resources. It is a plan of financial operations which includes an estimate of the resources that will be available to the state and an estimate of proposed *expenditures* for a given period.

The budget should be presented in a way that facilitates policy analysis and promotes public accountability. The estimates of resources that will be available and the costs that will be expended should be calculated using the most accurate techniques available. Inferior econometric methods or accounting practices which are known to produce less accurate estimates can be used only disingenuously even if they produce a desired political result.

What's more, the budget process deals in the uncertainties of the future. Revenues are subject to changing economic conditions. There is always upward pressure on state resources. Therefore it is essential that the most truthful information be available during this critical decision making process.

TYPICAL STATE BUDGETING AND FINANCIAL REPORTING EVENTS

State governments undertake two major financial reporting events every fiscal year. The first is the preparation of a prospective budget which (i) estimates the revenues and other sources of funding that will be available to the state, and (ii) its plan to spend them. The budget is prepared before the fiscal year begins and approved by the each state's respective legislature and governor.

The second event occurs at the conclusion of the fiscal year when each state produces its annual report, a comprehensive document which retrospectively presents the results of the fiscal year's activities. The annual report is effectively a report card that illustrates how the actual revenues were collected and spent. The variations between the budget plan and the annual report are a major concern of this Study.

CASH BASIS BUDGETING

The root of current state government budget processes and accounting systems is called *cash basis* fund accounting. The antecedents of this accounting method can be traced back to the early twentieth century when governments had one bank account or "fund" for the government's general expenditures, and separate bank accounts or "funds" for each special project. The purpose of this segregation was to ensure that the taxes, i.e. cash, collected for specific projects, would be visible and available to fulfill the legislatures' intents. In addition, the amount of cash in the fund put a practical limit on spending.[iv]

Under this cash basis method of accounting, revenue is recognized when cash is received rather than when earned. Revenues include taxes, charges for services, fees, fines and funds received from other governmental units. Taxes can be thought of as a state's "earnings" and these funds can be used at the state's discretion. Funds received from other governmental entities, like the federal government, are essentially grants that may have requirements as to why, how and when the funds are spent.

State budgets use the term "expenditures" to replace both of the terms, costs and *expenses*, as they are used in accounting for profit-seeking entities. Expenditures are defined as decreases in fund financial resources.[v] Under the cash basis system, expenditures are recognized when paid rather than when incurred. Expenditures include the checks written for items such as salaries, services, supplies, the costs of long term assets, debt service principle and interest.

The advantages of cash basis budgeting includes:

- The ease of understanding the system;
- Reliable information about cash flows;[vi] and
- Cash fitting well with a budgeting system that focuses on controlling and ensuring compliance with the legal purpose of the spending and its limits.

One artifact of cash basis accounting is its treatment of capital asset purchases. In a pure cash accounting system for example, the entire cost of constructing a bridge or road would be budgeted in the year that the state actually paid the contractors. This ignores the fact that the bridge will have a 25-50 year useful life. But, allocating the cost over an asset's useful life is impossible in a cash basis accounting system. The *accrual basis accounting*, described immediately following this section, remedies this and other shortcomings of the cash accounting systems.

Despite the existence and universal use of objectively better accounting systems in the private sector, the Institute's research determined that state budget calculations are still dominated by cash basis fund accounting. With few exceptions, state budgets recognize only current cash inflows and outflows to the state "checkbook". Therefore in this document we will use the term "cash basis" to describe the method used to calculate state budgets, even though governmental officials may use the term "*modified accrual basis*".

ACCRUAL BASIS BUDGETING

The alternative to cash basis budgeting is accrual basis budgeting[2]. Under this system, revenues are recognized when earned and costs are recognized when incurred rather than when they are paid. Accrual accounting generally provides a more accurate calculation of an entity's financial performance and condition than does cash basis accounting. Interestingly, governments insist that businesses of nearly any scale use accrual accounting to calculate tax liabilities. [vii]

The accrual system's major goal is to properly define and match revenues with the actual costs and expenses incurred during the fiscal period. In addition to cash transactions, accrual accounting recognizes a host of non-cash transactions. These include amortization, depreciation, earned but not received revenues, and obligated but not yet paid expenses. In this, it is a more complicated, but a much more informative *basis of accounting.*

An example of a typical accrual accounting transaction would be the interest payment on a bond. If the bond paid interest on June 30 and December 31 of each year, a bond holder, using a cash basis

[2] Please note: Accrual budgeting is based on full accrual accounting. Full accrual accounting is not the same as accrual accounting under GASB GAAP. Full accrual accounting recognizes all expenses including the actuarially determined cost for post employment benefits.

accounting system, would book the interest received when a check came in the mail. In contrast, an accrual system would recognize one-twelfth of the total annual interest payments on every month's financial statements, regardless of the fact that no cash was actually received.

On the other side of that transaction the bond issuer, using a cash basis system, would only recognize the interest expense twice per year. The interest expenditure would be recorded only on the June and December statements, even though the interest to be paid had accumulated **every** month. Accrual accounting would recognize that the issuer had become **obligated** to pay the accumulating interest, even though a cash payment would not be required or made for several months.

Accrual *accounting principles* apply to any number of events that do not involve cash but do have financial consequences. These include:

- Allocating the cost of long-term assets over their service lives;
- Recognizing the costs of post-employment benefits even though they will not be paid in cash for many years; and
- Reporting the costs of goods and services when consumed even though the vendor will not be paid until some time in the future.

For many government transactions such as salaries, grant payments and other general expenditures, there would be no significant differences between cash and accrual based budgeting. In the case of employee pensions and post-employment health care benefits, an accrual budget would recognize costs earlier, when the commitment is made, and thus enhance the legislature's ability to understand and control these costs. For capital purchases, accrual budgeting would delay recognition of costs and may impair the legislature's ability to control and account for the expenditures related to these purchases.[viii] By establishing compensating controls, the states would be able to address such control issues. Under accrual budgeting the depreciation of assets would be included in the annual budget, not the cost to purchase the assets. Funds would be appropriated for depreciation, even though this is a non-cash expenditure. Therefore governmental agencies would receive *appropriations* marked as depreciation that could be used to purchase assets or set aside for future asset acquisitions.

Besides illuminating the long term effects of current policy, accrual budgeting also provides:

- Increased financial transparency;
- Full costing information to determine accountability and performance measurements;
- Recognition of expenses when incurred, regardless of payment date; and
- Support for longer range policy and management perspectives.

While full accrual budgeting is not used by any state to prepare budgets, it is being used in various countries. In February 2000 the U.S. Government Accountability Office (GAO) issued a study titled, "Accrual Budgeting: Experiences of Other Nations and Implications for the United States".[ix] As a part of this study, the GAO reviewed six countries, Australia, Canada, Iceland, the Netherlands, New Zealand and the United Kingdom who have adopted accrual budgeting.

FINANCIAL ACCOUNTING STANDARDS

While typical state budgets are often created without much regard to sound accounting practices state annual reports are subject to established accounting principles. These annual reports are described in the section immediately following but it is important to touch on the organizations that create and prescribe accounting standards. Since its beginning, the accounting profession has continuously examined the techniques and methods it employs to present financial information in the most informative, comprehensive, and consistent manner. This collection of "best practices" is known as "Generally Accepted Accounting Principles" or "GAAP".

The Financial Accounting Foundation (FAF), a private-sector, independent organization has ultimate responsibility for the creation of GAAP standards which it fulfills with this hierarchy:

<table>
<tr><td colspan="3">General Accepted Accounting Principles
(GAAP)
Comes From:</td></tr>
<tr><td colspan="3">The Financial Accounting Foundation
(FAF)
Established 1972
Which oversees:</td></tr>
<tr><td>Private Sector Principles
via:</td><td colspan="2">Governmental Principles
via:</td></tr>
<tr><td>For Corporations and Non-Profit Entities

The Financial Accounting Standards Board
(FASB)
Established 1973</td><td>For State and Local Governments

The Governmental Accounting Standards Board
(GASB)
Established 1984</td><td>For the Federal Government

The Federal Accounting Standards Advisory Board
(FASAB)
Established 1990</td></tr>
</table>

As indicated above, the Financial Accounting Foundation has authorized three specialized bodies to ascertain the need for and to debate the creation of new accounting principles. In 1973, the FAF created the Financial Accounting Standards Board (FASB) and charged it with establishing accounting standards to be used by the private sector, including business and non-profit entities.[x] In 1984, the *Governmental Accounting Standards Board* (GASB) was charged with establishing state and local government accounting principles. The GASB was created by FAF with the assistance of ten national associations of state and local government officials. The GASB serves a diverse constituency including preparers and auditors of governmental financial information, users of those statements, including rating agencies, academics and citizens-at-large. The GASB is governed by seven board members. It is funded by contributions, the sale of publications and a nominal fee voluntarily assessed on municipal bonds issued.[xi] The Federal Accounting Standards Advisory Board was created by federal government officials to establish accounting principles for the federal government. As a consequence of three bodies governing their respective spheres, GAAP is different in each sector. In our view, private sector GAAP is more comprehensive and mature than the GAAP established for state and local governments and the GAAP established for the federal government.

FINANCIAL REPORTING: THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Each state budget is its annual blueprint for how the state resources **will** be spent, while the *Comprehensive Annual Financial Report* (CAFR) is the document that reports how the resources **were** employed. This report is issued by the state comptroller or treasurer after the fiscal year ends and is functionally equivalent to a corporation's annual report. It is considerably longer than the typical private sector annual report because of the multiple fund transactions and balances that must be reported.

The CAFR is prepared using state and local GAAP established by the GASB. *GASB GAAP* requires that the CAFR consists of two major sections: introductory and financial.

- The introductory section includes the letter of transmittal identifying the responsibility for the creation of the report; a list of government officers; an organizational chart and, if awarded, the Government Finance Officers' Association's "Certificate of Achievement for Excellence in Financial Reporting".

- The financial section includes the auditor's report; the management discussion and analysis of operations and financial position; and the basic financial statements including the government-wide, consolidated statements. These consolidated statements, which look much like those prepared by businesses or non-profits, include a *Statement of Net Assets* and a *Statement of Net Activities*. In the data section of this Study, each state's schedule includes a "GAAP Basis" column. This column is derived from the government-wide Statement of Net Activities.

Included in the financial section are the financial statements for eleven funds which are categorized as governmental, proprietary and fiduciary funds. Every major fund in each of these categories is presented separately. Six of the eleven funds fall into fiduciary and proprietary categories and are reported using accrual accounting. Pension Trust Funds and Investment Funds are examples of fiduciary funds. Unemployment Insurance and University Funds are examples of proprietary funds. The remaining five funds are reported as governmental funds and represent the most basic functions the state government provides. These are presented using the modified accrual method. The focus of this method of accounting is the receipt and expenditure of resources,[xii] which is very similar to the cash base method. The General Fund and Road Fund are examples of governmental funds.

Another GASB GAAP requirement is the inclusion of a "Budgetary Comparison Schedule" in the CAFR. This schedule includes the original budget, the final appropriated budget and the actual results computed on the same basis as the budget. In the data section of this Study, each state's schedule includes a "Budgetary Basis" column. This column is derived from the amounts reported on the Budgetary Comparison Schedule in the budget columns. If the "original budget" is reported, then its amounts are used.

State governments are not required to, but may include a statistical section in their annual reports. This section, which is not audited, provides historical trend information and additional detail that may offer users of the annual report a better understanding and assessment of a government's economic condition. The information in the statistical section may include revenue capacity, debt capacity, demographic and economic data, and data such as the number of government employees, volume and usage of capital assets, and indicators of the demand for government services.[xiii]

SPECIAL MENTION: PENSIONS AND PENSION ACCOUNTING

The obligation for pension benefits is a major factor in determining the financial conditions of states. By way of background, there are two types of pension plans: defined benefit plans and defined contribution plans. Defined benefit plans are designed to provide a designated series of payments to employees when they retire. These payments are usually defined by contracts or collective bargaining agreements between the state and their employees. These plans can be funded as a pay-as-you-go system or the employer and employees can contribute funds to the plan over the employees' working lives. Defined pension benefits are usually required to be paid without consideration to the amount of assets that have accumulated in the plan. Therefore the employer takes on the risk of decreases in the market value of plan assets. A defined contribution plan provides a payout at retirement that is dependent upon the amount of money contributed and the performance of the investment vehicles utilized. Participants in a defined contribution plan typically have control over investment decisions and bear the investment risk.

Employers who offer defined benefit plans are obligated to pay the specified benefits when employees retire. Employers may or may not accumulate assets to fund these payments during the time workers are employed. As a result of the fluctuations in the market value of plan assets, defined benefit plans have all but disappeared from the private sector and have been replaced by 401(k) plans (or their equivalents). The risks associated with defined benefits plan were highlighted when FASB started to require corporations to report their total unfunded pension liabilities. Corporations are also required to report increases in their pension expense as plan assets decrease in value. When these disclosures were required, a massive switch to defined contribution plans commenced. This means that future pension obligations are not accumulating because the employee benefits are based upon what has been contributed to the plans, plus any earnings realized by investing those contributions.

The private sector pension disclosures have not been required in the public sector. Prior to June 15, 1997 state and local government-wide financial statements reported pension costs using cash basis accounting. Pension benefits were reported when paid, not when earned. Annual reports that were issued after June 15, 1998 were required to follow "GASB Statement No. 27 - Accounting for Pensions by State and Local Governmental Employers (GASB 27)". Statements of Net Activities issued after this date include an Annual Pension Cost, which can consists of four elements. The first element is the *actuarially determined amount* of normal pension cost based on the current period salaries of employees covered under the pension plan. The second element is the amortization of pension under-funding prior to the implementation of GASB 27. These previously incurred costs, that were not adequately funded, are being amortized over a 40 year period. The third element is the amortization of newly approved pension benefit increases. These increases can be amortized over a period of 30 years, with no liability being reported by the government in the year the increases are approved. The fourth element is interest on the government net pension obligation. This is the amount the state must pay to "make up" for the earnings it would have received had it actually contributed the amounts required by the first three elements.

If a state government makes a contribution to its pension plan which is less than the amount of the Annual Pension Cost, the contribution deficiency is a Net Pension Obligation, which is reported as a liability on the government's Statement of Net Assets. Conversely, if a government makes a contribution to its pension plan of more than the amount of the Annual Pension Cost, the contribution excess is reported as a Net Pension Asset. The cumulative difference, since the effective date of GASB 27, between annual pension cost and the employers' contributions to the plan is reported as the government's Net Pension Obligation or Asset on the state's Statement of Net Activities.

The notes to the financial statements include important information about each of the government pension systems including a description of the plan and the funding policy. Significant disclosures about each pension fund are also included as "Required Supplementary Information" in the financial section of the CAFR. The document titled "Schedule of Funding Progress" includes each pension funds' "Unfunded Actuarial Accrued Liability" for the last three fiscal years. This liability is calculated by the pension funds' actuaries based on the present value of the amount that will be needed to pay future benefits. Actuaries calculate the "actuarial accrued liabilities" based on an actuarial cost method and a number of assumptions, including discount rates as well as worker and retiree mortality. Actuaries also estimate the "actuarial value of assets" that the pension plan has. The excess of actuarial accrued liabilities over the actuarial value of assets is referred to as the "unfunded actuarial accrued liability". The Institute for Truth in Accounting considers this liability amount to be state and local governments' a truer liability for pensions. We do not consider this amount the "true" liability, because of the actuarial assumptions that GASB allows states to use when valuing pension plan assets and liabilities. The accurate calculation of the "true" pension liability is a discussion outside the scope of this Study.

ACCOUNTING FOR OTHER POST-EMPLOYMENT BENEFITS

In addition to promising future pension benefits, states also provide for other needs of retired workers. The largest of these is medical care, but these non-pension benefits can also include ophthalmic, dental and hearing plans, long-term care, post-employment life and disability insurance and other benefits. Collectively, these non-pension benefits are known as "Other Post-Employment Benefits" and abbreviated with the acronym "OPEB". Most state governments have funded and accounted for OPEB on a pay-as-you-go basis. Expenses have only been recorded and recognized when actually paid and in most cases these liabilities are unfunded because no assets have been accumulated to fund these benefits in the years that employees have earned them.

To date the GASB has not required state and local governments to disclose their OPEB obligations. This will change when GASB Statement Number 45 - "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (GASB 45)" takes effect over the next couple of years. Governments with annual revenues of $100 million or more are required to implement this Statement in their FYE 2008 financial statements. Governments with total annual revenues of $10 million or more but less than $100 million are required to implement this Statement in their FYE 2009 financial statements

By requiring these costs to be recognized on an accrual basis, GASB 45 will dramatically change the way states and municipalities account for these expenses and their associated liabilities. GASB 45 requires existing liabilities to be disclosed and to be amortized over a 30 year period. The truer representations of the OPEB liability must be disclosed in the CAFR Required Supplementary Information similarly to the disclosures required for pension liabilities. The IFTA believes that GASB 45 is an important and positive development because OPEB costs are material and may actually represent larger liabilities than pensions. Determination of the degree to which this may be true is a subject for a future study but at the federal level Medicare and Medicaid are larger net liabilities than is Social Security.

IMPORTANCE OF TIMELINESS

Timely production and release of financial information is one of the cardinal requirements of an effective system of financial reporting and control. Each state CAFR provides information that is essential to **future** financial decisions. For this information to be useful it must be understandable, reliable and relevant. To be relevant this information must be available on a timely basis.

Reasons for issuing a quality CAFR on a timely basis include:

- More transparent state government operations.
- Public policy makers would be more informed about the state's real financial condition because the CAFR discloses the financial effects of present period transactions that will be settled in the future.
- The CAFR should be used to confirm or refute budget estimates on such important considerations as the number of clients who claim an entitlement, the real cost of programs that were speculative in the budget and reveal unintended program consequences.
- The CAFR feedback is crucial as policy makers begin the **next** budget process. If the CAFR is issued late, then legislators and executives do not have critical information about the state's financial condition and capabilities. It is difficult to make knowledgeable decisions about the future, if you do not fully understand what happened in the past.

Public scrutiny of the CAFR assist citizens in being informed participants in the state's budget process. At the same time, it demonstrates the state is willing to provide the information necessary for the public to judge its performance.

FINDINGS

The Institute's Study produced a multitude of findings that are best segmented into two main categories. The first may be regarded as deficiencies in accounting doctrine as it currently exists with respect to state and local governments. This Study identified a number of structural problems with the governance, rules, methods and techniques that state and local governments use to comply with Generally Accepted Accounting Principles.

The second category identifies the requirements that states, as sovereign entities, have imposed on themselves to undertake the budgeting process and how self-serving budget manipulations are used to circumvent these requirements. In particular, we observed how they impact the interplay between the budgeting and annual reporting processes the states complete each year.

From these two categories of findings, we have developed several recommendations we believe would help improve the usefulness of state level budgeting and accounting. To more fully understand the background of the issues and the ongoing effort to improve the art of public sector accounting, we have included some historical perspectives.

The following is a summary of our findings:

- Systematic Accounting Issues
    - Accounting rules set by Governmental Accounting Standards Board Seem Bias Toward Governments
    - Major accounting deficiencies remain unresolved
    - The budgeting model creates systematic risks
    - The effects of structural accounting issues
        - Annual reports are too complicated and cumbersome
        - Budgets do not agree with actual
        - Billions of dollars in pension liabilities are not on state balance sheets
        - Other post-employment benefits not reported at all
- Legal Requirements and Budget Manipulations
    - All states except Vermont require a balanced budget
    - The majority of states report their budgets are **not** balanced
    - State budgets are prepared on a cash basis
    - Ways balanced budget requirements are circumvented
        - Word games
            - Convenient definitions
            - Re-characterizing debt to be the same as revenues
            - Using accruals when they are beneficial
            - Claiming balancing budgets while running "structural deficits"
        - Revenue manipulations
            - One-time cash infusions
            - Questions about the value of assets being sold or leased
            - Sale lease-back accounting hazard
            - Tobacco settlement securitization
            - Use of sales proceeds questions
        - Expense manipulations
            - The true employee retirement cost not reported
            - Not paying bills
- GAAP Surpluses Do Not Tell the True Story
- Many State Annual Reports Are Published Late
- Exposure of Financial Facts Changes Behavior

SYSTEMATIC ACCOUNTING ISSUES

ACCOUNTING RULES SET BY GASB SEEM BIAS TOWARD GOVERNMENTS

The development of accounting standards for state governments is the responsibility of the Governmental Accounting Standards Board. These standards make up the Generally Accepted Accounting Principles used by state and local governments to prepare their annual reports. For the reasons set forth here, we believe the GASB has lacked the independent board members and adequate funding to set standards that are not biased toward governmental officials. Compromise on the part of this standards setting body has hampered the development of accounting doctrine that would foster truthful state accounting.

The National Council on Governmental Accounting (NCGA) was the first national organization to address government accounting and financial reporting issues.[xiv] The NCGA did not have the resources and staff needed to address the number of governmental issues as they arose. To remedy this problem the Financial Accounting Foundation accepted responsibility for establishing state and local government accounting standards in 1979.

Initially the FAF wanted state and local government accounting standards to be set by the FASB but government organizations argued that government accounting and business accounting are fundamentally different. These organizations threatened to continue to rely on the NCGA's standards and not assist the FAF financially or to recognize the FASB standards. As a compromise, in 1984 the GASB was established by the FAF, the American Institute of Certified Public Accountants; the Government Finance Officers Association; the National Association of State Auditors, Comptrollers and Treasurers; and the seven other organizations representing state and local government officials.[xv] These organizations still have a great influence over the GASB because they dominate the GASB funding and board member selection process.

Numerous examples raise doubts about the independent nature of the GASB. For instance, in the early 1990's the GASB issued Statement 11 which would have required a full accrual system similar to systems used by business. Some of the governmental organizations that were involved in the formation of the GASB were adamantly against switching from the traditional cash basis fund accounting. To give time for this debate to be resolved, the GASB chose to not give Statement 11 an implementation date, effectively ending this important improvement.

Another suspicious example occurred in 1994 when some of the original GASB members' terms ended. Possibly because governmental organizations dominate the GASB board member selection process, the incoming members were accountants who strongly favored the traditional cash basis fund accounting system.[xvi] In 1999 the new board issued Statement 34, "Basic Financial Statements---and Management's Discussion and Analysis---for State and Local Governments". The board resolved the debate between those who wanted to use a full accrual accounting system and those who wanted to continue to use the traditional cash basis fund system by requiring that **both** systems be used. As discussed later in this document, using both systems has resulted in annual reports that are too complicated and cumbersome.

Another instance where the GASB's governmental constituency appears to have impacted the independent standard setting process involves the reporting of post-employment benefits. As detailed in this Study, the GASB lags far behind the FASB when it comes to reporting on retirement costs. The GASB allows an extended period of time for governments to amortize the prior under-funding of post-employment benefits. The standards for pension and other post-employment benefits, including health care costs, enable governments to leave significant liabilities *off-balance sheet*. GASB standards are also lax on the evaluation of pension fund assets. GASB GAAP allows actuaries to value assets on an average of their market price over five years. This "smoothing" of the assets' value obscures the plan's risk profile. The GASB also permits each state to choose the way the pension plan actuaries will calculate pension expenses and liabilities, including the actuarial cost methods, assumptions and amortization periods.[xvii] This makes it difficult, if not impossible, to compare pension plans from state to state.

Because GASB 34 states that financial reports should provide information that is useful in evaluating efficiency and effectiveness, the GASB is proceeding toward the establishment of a formal project on governmental performance measurement reporting. Eight major state and local public interest groups have strenuously objected to this project, because they believe it will create more complicated financial reporting than is necessary to provide additional information of real value to decision makers. Some of these government constituencies have threatening to stop funding the GASB and have proposed the disbanding of the board, if the project on performance measurement reporting proceeds. That these threats are credible highlights the dependency of the GASB on the governments it is supposed to regulate.

These examples serve to illustrate some of the ways the independent standard setting process of the GASB seems to being compromised by bias toward its governmental constituency. The funding and management mechanism that evolved from this history is inadequate to ensure an ongoing program of high-quality governmental accounting standards and has raised questions about its ability to remain independent (from) its donors.[xviii] On October 30, 2007 Arthur Levitt, former SEC chairman, urged the entire accounting standards setting process be reconstituted to serve the investing public rather than corporate and government constituent groups. He advocated that GASB members be chosen based on who is "best qualified" to serve, rather than based on recommendations from constituent groups.[xix] Levitt and others have also called for an independent source of funding for the GASB.

Like Arthur Levitt, the Institute is concerned about the GASB's lack of independence from its governmental constituency. The independence issues may have caused some GASB members to lose sight of the desire to present information that could assess government accountability and sustainability. While we can't read the minds of GASB members, we can suspect that the GASB's lack of independence has directly led to major deficiencies in state and local government accounting standards.

MAJOR ACCOUNTING DEFICIENCIES REMAIN UNRESOLVED

While disclosure improvements have been made to GASB GAAP since the early 1990's, comments made by James Antonio and Martin Ives, GASB chairman and vice chairman in 1993, are still true today. They said; ". . . (We) believe that the current accounting model is flawed because it fails to recognize in the operating statement significant unpaid expenditures that result from current period transactions and events. These include items such as claims, wages deferrals, unfunded pension and other employee benefits, and similar items related to the current period but not requiring cash outflow until future periods. The accounting model also results in reporting long-term debt issued to finance current operating expenditures as operating inflow rather than as a fund liability. In these instances, instead of producing a straightforward statement of operating results, the accounting model produces operating statements likely to confound all but the most sophisticated users."[xx] Based on the findings of this Study, the Institute could not agree more with this statement.

THE BUDGETING MODEL CREATES SYSTEMATIC RISKS

The budget process is where seeds of fiscal irresponsibility can be planted. The cash basis system used to calculate state budgets is the soil in which these seeds can flourish. This short sighted accounting method creates at least two systematic risks, a morale hazard and a moral hazard.

A morale hazard occurs when a body acts without malice, but differently than it otherwise would because it is insulated from the effects of their behavior. This notion is usually applied to insured events because insurance "makes good" on uncertain future casualties. This knowledge may unconsciously induce the insured to take on riskier behavior than they would if they were not insured.

In a similar way, legislators and governors are subject to a budgeting **morale** hazard as a consequence of the cash basis budgeting method. Because this accounting method insulates politicians from the very real hazards of future obligations that are accumulating, they make decisions that they might not otherwise make, or that they may be legally prohibited from making. Incurring costs **now** is a much greater incentive if the costs do not need to be paid or **budgeted for** until a future point in time. This is particularly true if the reckoning will occur after the politician leaves office. This "not in my term of office" attitude is enabled by cash basis budgeting, because it creates spending capacity today and shifts the political pain into the future.

This is a phenomenon that may occur without malice. The Institute has interviewed a number of legislators who simply do not understand the budgeting process and the implications of ignoring accrued costs that will need to be paid in the future. Moreover, the nearly unlimited demand for services for which only a limited supply of resources exists creates such an immediate pressure even the most able and upright legislator might be unable to resist.

Cash basis budgeting also creates a **moral** hazard. A moral hazard occurs when a body acts **unethically** because they are insulated from the effects of their decisions. Legislators who use cash budgeting to avoid their state balanced budget requirements exemplify a moral hazard.

Unfortunately, state and local government officials determined long ago that if they paid their employees more salaries there would be an impact on their current budgets and financial statements. The cash basis method used to calculate state budgets allows governmental officials to use deferred compensation gimmicks to avoid such negative impacts and keep their workforces happy. So, during labor negotiations, governmental officials just keep promising employees more pension and retiree health care benefits. None of these deferred costs appeared on the budget so politicians do not have to cut other programs to provide for these benefits, nor do they have to raise taxes to fund these future promises.

Unscrupulous legislators may understand that they are incurring future costs but use the budget processes deficiencies to avoid the necessity of recognizing and providing for those expenses. At least some officials must understand the situation well and yet use it to their political advantage. To put employees' current service cost obligations on the backs of future taxpayers is to create a fundamentally unbalanced budget. Unbalanced budgets are inequitable to future taxpayers who have no voice in today's spending decisions. According to the GASB, this is contrary to the intent of balanced budget requirements, which is to provide accountability and to ensure that current costs are not passed on to future taxpayers.[xxi]

The shortsightedness of cash basis budgeting is starting to catch up to governmental entities, especially when the governments' true financial positions, including the pension and OPEB liabilities, are calculated. New Jersey Governor Jon Corzine highlighted in one of his budget addresses, "The constant focus on short-term priorities without consideration of long-term costs has led to financial decisions that hang over the state today, tomorrow, and far into the future."[xxii]

THE EFFECTS OF STRUCTURAL ACCOUNTING ISSUES

Our study of GASB standards found major accounting deficiencies in four areas:

- Annual reports which are too complicated and cumbersome;
- Budgets amounts do not agree to actual;
- Accounting for pension expenses and liabilities; and
- Accounting for the expenses and liabilities related to other post-employment benefits.

ANNUAL REPORTS ARE TOO COMPLICATED AND CUMBERSOME

Because GASB 34 requires state and local governments to use both the traditional cash basis fund accounting system and the more economic based accrual accounting system, annual reports are cumbersome, confusing and unnecessarily long. For example, Alabama's 2007 CAFR is 298 pages, and Illinois' is 498 pages. As a matter of comparison, the 2007 Consolidated Financial Report of the U.S. Government was 198 pages. General Electric's annual report for that year was only 104 pages.[xxiii]

One particularly complicating factor is that GASB 34 requires the inclusion of complete financial statements for eleven funds. During our study we were continually frustrated with digging through the many fund statements included in the annual reports to find important disclosures. For example critical pension plan data is included in the CAFR footnotes and Required Supplemental Information, which is buried after the numerous fund statements.

The structure of the statements confuses readers. For example, to calculate the amounts reported for the consolidated financial statements of corporations, it would be logical to combine the amounts that appear on the parent company financial statements and the amounts that appear on its subsidiaries financial statements. To calculate the amounts reported on the federal government consolidated financial statements, a person would combine the amounts that appear on federal agencies' financial statements. Contrary to reason, the amounts reported on consolidated (government-wide) financial statements of state and local governments are not the sum of the amounts reported on all of the funds financial statements. This is because some of the funds are accounted for using the accrual accounting method that is used to calculate the consolidated (government-wide) financial statements, while other funds are calculated on the cash basis.

BUDGETS DO NOT AGREE WITH ACTUALS

GASB 34 states that governments have a duty to provide financial information that is useful in comparing actual financial results with the legally adopted budget. This comparison was a major component of this Study. We found that there was little comparison between the actual amounts reported on state financial statements (GAAP Basis) and Budgetary Basis amounts. The divergence between budget and actual was predicted when GASB Statement 34 was implemented. This divergence exist because the legally adopted budgets are prepared using cash basis fund accounting, while GASB 34 requires governments to prepare their government-wide financial statements on GASB's version of accrual accounting.[xxiv] This creates a fundamental schism between the two reports, i.e. an "apples and oranges" scenario, which makes it very difficult for legislators to track the actual results of their budget decisions. The comparisons for California, Arizona and Arkansas are even more difficult because their budgets do not include revenues. In these states only expenditures are presented in their budgets.

BILLIONS OF DOLLARS IN PENSION LIABILITIES ARE NOT ON STATE BALANCE SHEETS

As previously mentioned, GASB GAAP did not require states to report any of their unfunded pension liability until 1997. Instead of having governmental entities report all of their unfunded pension liabilities at one time, the GASB allows these obligations to be amortized over 40 years. For example, prior to the implementation of GASB 27, Illinois had underfunded its pension plans by $13.7 billion. Each year $34 million of the pre-1997 under-funding is included in Illinois' Annual Pension Cost. Therefore, as of June 30, 2007, more than $10 billion of pension liabilities for which Illinois became liable for before 1997 are still not reported on its Statement of Net Assets.

The GASB allows state and local governments to amortize benefit increases over 30 years. For example, in fiscal year 2003 the Illinois legislature approved an early retirement option for teachers. While this action increased Illinois' actuarially calculated unfunded liability by more than $2.37 billion,[xxv] the Net Pension Obligation on the Statement of Net Assets as of June 30, 2003 showed no increase due to this policy decision. The full $2.37 billion became an off-balance sheet liability. The state's FY2003 financial statements also recorded no expense related to this benefit enhancement. Illinois chose to amortize this pension enhancement over 10 years. Therefore the Annual Pension Cost reported on the state FY2005-2007 financial statements was only one tenth of the $2.37 billion. As of June 30, 2007 more than one and half billion dollars of the cost related to this 2003 decision remains off-balance sheet.

Because the GASB allows for a 40 year amortization of pre-GASB 27 underfunding and a 30 year amortization of benefit enhancements, the amount included as the Annual Pension Costs on the financial statements is usually considerably less than the amount the actuaries calculate is needed to adequately fund the pension systems. We are fortunate that the GASB does require the actuarial unfunded pension liability to be disclosed in the Required Supplementary Information. This may allow sophisticated users of the financial reports to approximate the true pension liability owed by some state.

For example, as of June 30, 2007 the Illinois Statement of Net Assets includes a Net Pension Obligation of $14 billion. Information about the state true pension liability is found on page 135 of the Illinois CAFR within the Required Supplemental Information on the Schedule of Funding

Progress. This schedule shows three years of actuarial information for each of the five pension plans. To calculate the total pension liability, the Institute had to add together the actuarial unfunded liability for each of the pension plans. The total liability was $40 billion. This means GASB 27 allows $26 billion of Illinois' true pension liability to be kept off-balance sheet.

The calculation of some states' true pension liability is made difficult, if not impossible, because the state is involved in a multi-employer pension system. Under such systems the municipalities and the state have created one system that combines their pension assets and liabilities. Information about the multi-employer pension system is included in the Required Supplemental Information of the state's CAFR. But the state's portion, including its actuarially accrued pension liability, may not separate.

Another complication in calculating a state's true pension liability is that the actuarial valuation date is not in sync with the fiscal year end of the state annual report. The California CAFR for year ended June 30, 2007 is a good example of this problem. The actuarial valuation date for the pension plans is June 30, 2006. This means that the actuarial unfunded liability included in the required supplemental information of the CAFR is outdated.

We also found it disturbing that it is possible for state and local governments to report a Net Pension Asset on its Statement of Net Assets even though they have actuarially determined pension liabilities in millions, if not billions of dollars. This occurs if the government's annual contributions to its pension plan are higher than the annual pension costs, as calculated according the GASB 27 rules. An example of this phenomenon can be found in the 191-page CAFR of the city of Lakeland, Florida for September 30, 2007.[xxvi] The Lakeland Statement of Net Assets reported a Net Pension Asset of $7.9 million for its employee pension and retirement systems. Within the Required Supplementary Information, on page 100 of the CAFR, the true liability can be found. The Unfunded Actuarial Accrued Liability as of October 1, 2006, the last actuarial valuation date, was $62.4 million.

Another example of the confusion created by pension accounting standards can be found in Texas. On the 2007 Texas Statement of Net Assets there is both a $7.3 million Net Pension Asset and a $421 million Net Pension Obligation. The Net Pension Asset was reported because the state contributions to its Judicial Retirement System Plan II (JRS2) have been greater than the cumulative Net Pension Costs, calculated according to GASB 27, that were reported on the Texas Statements of Net Activities. A review of the state's Schedule of Funding Progress finds that the JRS2 pension system had an unfunded actuarial accrued liability. The truer liability was actually almost $9 million. The Net Pension Obligation was the result of the state funding other pension plans in amounts less than the Net Pension Costs as calculated under GASB 27. We could not calculate the truer pension liability for Texas, because one of the state's six pension plans, Teacher Retirement System of Texas, is a multi-employer plan and the amount included on the Schedule of Funding Progress appears to be the plan's total liability for which the state is only partially responsible.

OTHER POST-EMPLOYMENT BENEFITS ARE NOT REPORTED AT ALL

State and local governments have not been required to report any OPEB liabilities or related expenses beyond the benefits paid to current retirees. GASB 45 will change that starting in 2009. Unfortunately and similar to pension liabilities, very significant amounts of OPEB liabilities will not be reported on each state's *balance sheet*. The amount each state has under-funded its OPEB liability before GASB 45 implementation date in 2007 will not be immediately reported on each state's CAFR. Instead the pre-GASB 45 under-funding will be amortized over 30 years. This means that some states issuing their CAFR for FYE June 30, 2008 will report a little more than one thirtieth of their true OPEB liabilities. Therefore approximately ninety seven percent of these liabilities will be left off -balance sheet.

Some state and local governments have begun using actuaries to calculate their OPEB liabilities. In the 2007 Illinois CAFR, which was issued on June 25, 2008, State Comptroller Daniel Hynes noted, "On April 21, 2008 the State performed an actuarial valuation of the health, dental, vision, and life insurance benefits promised to retirees. The valuation reported a $24.2 billion actuarial liability with no assets currently set aside to fund the liability as the State uses a 'pay-as-you-go' method to make payments to retirees."

Because state and local governments have promised these retirement benefits without setting aside money to fund future payments, OPEB liabilities are enormous. Studies have estimated that state and local governments OPEB liabilities are between $600 billion and $1.6 trillion.[xxvii] The new accounting standard did not create this under-funding, but fortunately the disclosures required under GASB 45 will reveal them for the first time and make these funding gaps more apparent.

Because so many factors are involved, managing the costs of these health care and other OPEB programs is difficult. State and municipal laws and collective bargaining agreements may make it impossible for public sector employers to act unilaterally. It is also not easy to change employee expectations. Difficulties may be encountered when by trying to get citizens to agree to additional taxes to fund governmental employees' benefits especially during a period when taxpayers are losing these types of benefits from their own private sector employers.[xxviii]

Since corporations have been required to move from reporting for their OPEB on the pay-as-you-go basis to the accrual basis, many companies have cut back on these benefits.[xxix] We can only assume this result is due to the change in OPEB reporting requirements, but this certainly brings home the old adage that you can't manage something until you measure it.

Already there is evidence that governments are starting to consider managing their newly calculated OPEB liability. In his CAFR transmittal letter dated March 28, 2008 California's State Controller John Chiang noted that in 2007 he commissioned the state's first actuarial report on OPEB. The report disclosed that the state faces a $47.9 billion unfunded liability. Controller Chiang went on to say, "In January 2008, the California Public Employee Post-employment Benefits Commission, appointed by the Legislature and Governor, unanimously recommended that the state and local governments 'prefund' retiree health benefits by setting aside and investing funds as employees earn OPEB benefits."[xxx]

LEGAL REQUIREMENTS AND BUDGET MANIPULATIONS

ALL STATES EXCEPT VERMONT REQUIRE A BALANCED BUDGET

Since state governments cannot infinitely expand their credit, issue currency or tax excessively, their ability to spend is finite. To avert future financial difficulties and to enhance accountability, states have balanced budgets requirements in their constitutions and/or laws. Our study found all states, except Vermont, have such requirements.

These balanced budget requirements have both short and long-term objectives. In the near term, these requirements force governors and legislatures to determine the amount of taxes that must be raised to cover the costs of governmental policies and actions.[xxxi] In theory, these requirements foster governmental accountability because politicians are allowed to spend only the amount taxpayers are willing to pay. Former U.S. Treasury economist, Francis X. Cavanaugh, said it best: "Politicians should not have the pleasure of spending (getting votes) without the pain of taxing (losing votes)." Mr. Cavanaugh highlighted that "we need that accountability to ensure that spending is justified and that the taxpayers are willing to pay for it." [xxxii]

The GASB believes that laws requiring balanced budgets prevent the current generation of citizens from shifting the burden of paying for current-year services to future-year taxpayers – namely, our children and grandchildren. The GASB deems this concept, known as "*inter-period equity*," to be a significant part of accountability and fundamental to public administration.[xxxiii] Inter-period equity is indeed a significant part of accountability because it reduces incumbent's ability to promise voters future benefits without having an impact on budget calculations.

THE MAJORITY OF STATES REPORT THEIR BUDGETS ARE *NOT* BALANCED

Our study found that the majority of states report that their budgets are *not* balanced. Our review of the state numbers revealed that during the fiscal years 2005-2007:

- Two states reported that their budgets were balanced for each of the three years;
- Ten states reported budget surpluses for each of the three years;
- Twenty six states reported budget deficits for each of the three years;
- Another nine states reported budgetary basis deficits for one or more of the three years;
- The annual budget bills adopted by California, Arizona and Arkansas do not include revenues; therefore, only expenditures are presented on the Budgetary Comparison Schedules. This makes it impossible to determine whether their budgets were balanced.

Each state's budget surplus or deficit can be found in the "Roll of States" section of this document. Within each state's data schedule is a "Budgetary Basis" column. A positive amount on the net transaction line represents a surplus and a negative amount represents a deficit. These numbers were obtained from each state's original budget, if available, as reported on their Budgetary Comparison Schedule. This Schedule is part of the Required Supplementary Information included in the financial section of the CAFR.

STATE BUDGETS ARE PREPARED ON A CASH BASIS

State budgets are calculated using the cash basis method. The cash basis method of preparing budgets allows governors and legislators to focus only on expected cash flows in the coming fiscal year and to simply ignore previously created obligations that will have to be paid in future years.

Initially, cash basis budgeting may have worked for governments, because they were only responsible for paying current benefits and services. For most government activities, the time between the occurrences of the underlying transaction resulting in a government liability and the cash outlay necessary to liquidate the liability was relatively short. Therefore, cash-based measurement generally provided both adequate information and control. But as governments have taken on long term commitments, such as public employee pensions and retirement health care, cash basis budgeting no longer tracks a government's ultimate costs.[xxxiv]

State governments, like any business, engage in transactions that will affect future accounting periods. It is desirable to recognize these future obligations as they accrue over time. As we will discuss in greater detail later in this Study, cash basis budgeting does not adequately consider liabilities incurred during the budget period. Therefore, the long term consequences of past and current spending decisions are not included in the budget process.

One obvious example of transactions with future consequences would be pension obligations. A part of the compensation earned by employees during a fiscal year is the present value of a portion of their post-employment benefits. Employees earn the right to receive these benefits by working now, but they will not collect these benefits until they retire. Since no cash is due to the worker currently, cash basis budgeting ignores the effects of this and other accruing liabilities. This is an evident deficiency because the obligation is a real, but unrecorded, liability.

WAYS BALANCED BUDGET REQUIREMENTS ARE CIRCUMVENTED

Balanced budget requirements are intended to maintain fiscal sustainability and public accountability, but these intentions are being are circumvented. The Institute found governments circumvent the intent of balanced budget requirements by:

- Using word games that defy the plain intent of constitutions and statutes as well as the very meaning of words;
- Manipulating revenues through falsely inflating or favorably shifting them into earlier periods; and
- Manipulating expenses by ignoring vendor bills and shifting current expenses into later periods.

WORD GAMES

CONVENIENT DEFINITIONS

The actual wording of balanced budget requirements varies dramatically from state to state. In the data section of this Study we include each state's balance budget requirements which sometimes touch both the state constitution and statutory laws. To obtain balance, most requirements mandate that expenditures (or appropriations) should not exceed revenues.

For most states, the wording of the balanced budget requirement is not specific about what "revenues" should include. This leaves elected officials with many options about the types of cash inflows that can be used in the budget calculation. For example:

- The constitution of New York requires the budget should include, ". . . **moneys** and revenues sufficient to meet such proposed expenditures."
- The Illinois constitution requires that proposed expenditures shall not exceed **funds estimated to be available** for the fiscal year as shown in the budget.
- The balanced budget laws of Nevada and Oklahoma call for proposed expenditures not to exceed anticipated revenues and "**other means of financing**".
- New Mexico's law include "an estimate of state expenditures and **proposals for funding them**."

RE-CHARACTERIZING DEBT TO BE THE SAME AS REVENUES

The cash basis, used to calculate budgets, report long-term debt issued to finance current operating expenditures, as operating inflow rather than as a fund liability. In essence, the state budgets report loan proceeds as "revenues".

The Institute found that governors and legislatures routinely use borrowed funds to "balance" state budgets. One egregious example occurred in 2003 when Illinois issued general obligation bonds and used more than $2 billion of the borrowings to pay for current pension contributions. Functionally, the state borrowed money repayable by future taxpayers to pay the current service costs of its employees. This is **exactly** contrary to the goal of accountability intended by balanced budget requirements, because it shifted that year's obligation onto future taxpayers. Yet accounting rules for budgets allowed the governor and legislature to regard the $2 billion of borrowed money to be "funds available" to spend elsewhere in the budget.

Like Illinois, other states often include loan proceeds as "revenue". The California 2009 budget includes a provision that would borrow from future lottery earnings. This type of borrowing will have to be approved by voters through a special referendum in the spring of 2009. If voters disapprove, then the politicians have threatened drastic cuts in government services and benefits.[xxxv]

FUNDS SWEEPING

Other examples of this disingenuous practice of identifying "revenues" were evident during the Illinois 2009 budget debate. During the process of adopting the budget, the governor admonished the state House of Representatives for failing to recognize two "new revenue sources". One of the governor's "revenue sources" was the proposed transfer of $530 million from the state trust funds to its general fund. This is akin to a person transferring money from his savings account to his checking account and claiming he made money. We found evidence that this practice called "funds sweeping" is also used in other states. This funds sweeping can be undertaken because the Illinois balanced budget requirements mandate that only six funds must be balanced, including the general fund. Therefore if non-budgeted funds, such as trust funds, have balances, the extra cash can be shifted to balance the six "budgeted funds".

USING ACCRUALS WHEN THEY ARE BENEFICIAL

The Illinois governor's second "revenue source" was to be a part of the refinancing of state debt. His plan was to refinance some of the pension debt at a lower rate which would mean lower **future** interest payments. The governor felt that the difference between the new interest payments and the higher, old interest payments should be handled as a "revenue source" which could be spent today, even though the difference in interest payments avoided would occur over the next 20 years. In other words, the governor was willing to budget "revenues" that would accrue in the future at the same time he was unwilling to recognize **costs** accruing in the future. This is like someone claiming they made money when they refinanced their credit cards. We determined other states also use such refinancing transactions to increase budget revenues.

CLAIMING BALANCED BUDGETS WHILE RUNNING "STRUCTURAL DEFICITS"

Another word game played by government officials is to say that their budgets are balanced and in the next sentence say that the state is running a "*structural deficit*". A structural deficit is defined as, "…a condition in which the revenues produced by a state's tax system … are insufficient to maintain existing levels of services."[xxxvi] This deficit happens because there is a fundamental mismatch between the revenues generated by a state tax structure and the revenues required to fund ongoing, essential public services.

In the short-term this happens because current bills for ongoing public services are not paid.[xxxvii] Long-term structural deficits exist because current revenues generated are not sufficient to fund expenses as incurred. Often, state employee post-employment benefit commitments are not recognized or the elected officials chose to divert funds for other programs rather than fund these commitments.

REVENUE MANIPULATIONS

ONE-TIME CASH INFUSIONS

As the current economic downturn creates large budget holes, many cities and states are considering the sale or leasing of fixed assets to generate one-time cash infusions that can be spent right away. Recently Elizabeth Lynam, a state policy expert with the Citizens Budget Commission, correctly said "One gets a little concerned when 'selling off state assets' and 'budget deficits' get mentioned in the same sentence."[xxxviii] These assets include real estate, lotteries, toll roads and student loan portfolios. The sale or lease of these assets can bring in large amounts of upfront cash that can be used to fill the large budget holes.

There are positive aspects of the sale and lease of revenue producing or unused assets which include:

- The lump-sum payments received from these types of transactions can be used to pay current bills;
- The moving of assets from public to private ownership may increase the government's real estate tax base; and
- Assets held in private hands may be subject to sales and income taxes.

The sale and lease of long term revenue producing assets introduces several concerns. First is the question of the nature of the transaction and the price that purchasers or lessees offer. The public sector is often unprepared to negotiate with the business people involved in these transactions. The private sector individuals who negotiate these deals may stand to make large profits.

The second concern is one of inter-period equity. When a state sells or leases an asset, it essentially collects all future net revenues immediately. While the transaction's proceeds can be used to balance the current budget, it takes away future revenue streams. Current elected officials taxpayers receiving current benefit from the sale of the assets, while future taxpayers may need to pay additional taxes to off-set the revenues that would have been received from the assets.

States must also ensure that the transactions recognize the full value of the assets, including direct and indirect benefits that the property provides.[xxxix] For example, there may be unused land around a state prison, but it is providing a nice buffer zone between the prison and the surrounding communities.

QUESTIONS ABOUT THE VALUE OF ASSETS BEING SOLD OR LEASED

Presumably, the state is able to determine the net present value of the asset and sets this as its "floor price". Such transactions only occur if there is a perceived benefit to both parties. When the potential buyer offers more than the value that the state perceives, the buyer must be thinking that they can generate more money under their management. In some cases the buyer or lessee of state assets may believe they can generate more money from assets, such as toll ways and lotteries, by operating them more efficiently than does the state or by increasing revenue. For example the buyer of a toll way system may consider raising toll fees or the buyer of the state lottery may work to lure new customers. That naturally begs the question of why the state could not do the same thing. A good example occurred recently in Chicago where the right to operate the parking meters was sold to investors. Immediately the new owners doubled the parking fees. Why didn't the city do this, itself?

SALE LEASE-BACK ACCOUNTING HAZARD

Another source of one-time revenue is the selling of state assets and then leasing those assets back. This allows governments to record proceeds from the sales of assets as current revenues, while cash basis budgeting allows them to disregard the future payments for renting back the same assets. Such transactions have had the effect of dramatically improving the budget deficit while increasing future governmental expenditures in the form of lease payments.

TOBACCO SETTLEMENT SECURITIZATION

Another opportunity for states to receive a large lump sum payment is the securitization of tobacco settlement revenue. To cope with deficits, some states have "securitized" the stream of revenue that they had expected to receive from the national tobacco settlement. In other words, states sold the right to future tobacco settlement payments. The tobacco settlement requires annual payments to states in perpetuity, but estimates of the settlement total value often assume income for the years 1998 through 2025. Securitizing even a portion of this total revenue has resulted in billions of dollars in "current revenue" being generated. The sale or lease of state assets and the securitization of future tobacco settlement payments can be expensive transactions to complete, involving fees for investment bankers, brokers, accountants, and lawyers.

USE OF SALES PROCEEDS QUESTIONS

A large cash sale of state-owned assets can create significant temptation to use the proceeds to fund immediate needs. These transactions may have to be decided during the tremulous budget process, so there may be little time to consider all of the consequences and issues surrounding the decisions. States considering the sale of assets need to establish criteria and strategies to make sure that these transactions are for the long-term good of the governmental entity, not done just to fill short-term cash needs. And determining the market value of the asset is often difficult.

Accountants warn their clients that it is not wise to sell long-term assets to fund short term needs. During a budget process politicians, whose horizon may be limited by the next election, might think only of the immediate resources needed for short-term budget relief rather than the government long-term needs. [xl] All aspects of the sale of the asset must be considered, including whether the government will need the asset in the future. Even though governments need resources during economic downturns, but this may not be the time to get the best price for the assets.

EXPENSE MANIPULATIONS

TRUE EMPLOYEE RETIREMENT COST NOT REPORTED

Because state budgets are calculated using cash-based measures, only the pension contributions paid to the plans are included in state budgets. The budgets only include the pension contributions legislators decide they want to pay in conjunction with all the other taxing and spending considerations. State pension contributions usually have nothing to do with the amount of retirement benefits earned by the workers during the budget period. Consequently a state budget calculation may not recognize billions of dollars of retirement costs incurred each year, yet the state budget is deemed balanced even though current revenue is not set aside to adequately fund these promises.

In state budget calculations other post-employment benefits, including health care, are usually accounted for on the pay-as-you-go basis. In other words, these benefits are not pre-funded and the cost incurred is not included in the budget. The amount included in the budget is the cash paid out for current retirees' benefits.

NOT PAYING BILLS

To maintain control over spending, state and local governments originally maintained separate bank accounts for various types of expenditures. Once a bank account balance reached zero, spending for that purpose had to stop. Unfortunately, government officials learned that they could get around this control by switching money from one bank account to another. They also determined they could simply postpone paying bills.[xli]

State balanced budget requirements were then enacted to stop such practices. Regrettably, cash basis budgeting still allows government officials to delay the payment of vendor bills and to defer compensation costs, such as pension and other retirement benefits. For example, the state of Illinois routinely delays Medicaid payments to healthcare providers. Each year the budget appears balanced on a cash basis even though the state does not provide sufficient funding for the Medicaid program.[xlii] In November 2008 Illinois Comptroller Daniel Hynes said that the state had an "unprecedented bill backlog of nearly $4 billion." The ability to defer such payments has created huge budget holes that will need filling in future years.

GAAP SURPLUSES DO NOT TELL THE TRUE STORY

To our surprise our Study found only four states had a negative GAAP basis ending balance for FYE 2007: Connecticut, Illinois, Massachusetts and New Jersey. All of the other forty six other states reported positive GAAP basis ending balances. In other words, their audited Balance Sheets reported that the states had Net Assets or that they had more assets than liabilities. Our concern is that this is giving states and their citizens a false indication of the states' financial conditions. Most readers of state financial reports are unaware that the Balance Sheet liabilities only represent a small portion of the state's actuarially determined post-employment liabilities. Truer amounts of unfunded pension liabilities are buried deep in the state CAFR and the liabilities for the states employees' healthcare and other retirement benefits are usually not disclosed.

In Rhode Island, for example, the audited CAFR reported that the state had Net Assets totaling almost one billion dollars. The state's actuarially determined unfunded pension liability is found deep in the CAFR on page 121. Two problems exist with this information. The first is that even though the CAFR was for fiscal year ending June 30, 2007, the most recent actuarial valuation was done on June 30, 2006. The second problem is that the state's three retirement systems are listed separately. To determine the state's total unfunded pension liability the annual report reader needs to add the three amounts together. If this pension liability is subtracted from the reported Net Assets, then Rhode Island had a financial hole of almost $4 billion. We assume decision makers would make different decisions if they understood that the state had an accumulated deficit of $4 billion versus having Net Assets of $1 billion. If the liability for post-employment health care and benefits were calculated and reported on the state's Statement of Net Assets, then the Rhode Islands' financial hole would be even deeper. The Management's Discussion and Analysis for Rhode Island, included in their June 30, 2007 CAFR, stated that the unfunded liability for post-employment benefits other than pensions equaled $696 million as of June 30, 2005.

We were not able to determine states' true financial conditions for the following reasons:

- For some states the date of the most recent actuarially valuation of their pension plans was different than the date of the financial statements. In some cases the actuarial calculation reported was a year earlier than the date of the CAFR.
- Some state pension systems are commingled with the pension systems of local governments in their state.
- GASB GAAP has not required state and local governments to disclosure the unfunded liability for other post-employment programs, such as health care.

The inability to determine state liabilities for post-employment benefits, made it impossible for us to ascertain each state's true financial condition.

MANY STATE ANNUAL REPORTS ARE PUBLISHED LATE

The Government Financial Officer's Association has set a six month standard for the issuance of the state's annual reports. This association's members include treasurers and comptrollers who produce their state's annual reports. When compared to the federal regulations imposed on publicly traded companies, this six month standard seems somewhat self-serving. Even under this rather lax standard only slightly more than half of the states issue their annual reports within this standard. We have ranked the timeliness of the issuance of the state's annual reports in Chart A on page 35.

The State of Michigan produces the nation's most timely CAFR. According to its Office of Financial Management, the Michigan CAFR is required, by statue, to be issued within 180 days of the fiscal year end. Nevertheless, in four of the last five years, the Michigan Office of the State Budget has issued its CAFR within ninety days of its fiscal year end. This stellar performance is based on two major factors. First, the state's governors—notably of both political parties—have had a sustained commitment to meet this goal. Second, Michigan has a centralized accounting system.

John M. Engler was Michigan's governor from 1991 to 2003. Gov. Engler requested that the CAFR for FYE September 30, 2002 be issued before he left office on December 31 or approximately ninety days after the FYE. The governor's goal was achieved, despite the fact that he was a "lame duck" and would be succeeded by a new governor of the opposite political party. His successor, current Governor Jennifer Granholm, has encouraged state agencies to continue to prepare the financial information, so the CAFR can be issued within ninety days. The uniform use of the same accounting system by all state agencies, and the re-engineering of some financial management processes, have enabled the Michigan Office of the State Budget to meet the governor's request for timeliness. As a result of this timely issuance, Michigan's legislators can use the important information included in the CAFR as they engage in the budget process.

FACTORS AFFECTING THE TIMELINESS OF A CAFR

Our study identified the following four main factors that are predictive of a timely CAFR:

- Commitment of governmental officials;
- Capacity of accounting systems;
- Adequate resources, including personnel; and
- The desire to receive the GFOA certificate.

COMMITMENT OF GOVERNMENT OFFICIALS

The most important factor is the commitment to report to the state citizens. Absent a legal requirement for the issuance of the CAFR by a certain date, the commitment of a state governor and legislature to issue the CAFR timely greatly enhances the quality of the report and the probability of timeliness. Only when all officials involved in the process understand the importance of a timely CAFR is a state likely to succeed in achieving the goal of issuing a report 180 days after the FYE.

One particular impediment to a timely reporting occurs in states where the agency or department preparing the CAFR does not have compelling authority over the executive branch agencies. This is problematic because it is the agency directors who accumulates and submits the financial data needed to complete the CAFR. For example, the Illinois CAFR is prepared by the state comptroller, who is a constitutional officer elected by the citizens and he is not part of the executive branch. Because the agency directors are part of the executive branch and report directly to the governor, the comptroller can only request that the agencies provide him with the necessary data on a timely basis. In these situations, the governor must exert his authority to ensure the agencies produce and transmit data to the right parties in time to meet the GFOA 180-day timeline. The Illinois annual reports for 2006 and 2007 were issued almost a year after the state's fiscal years.

CAPACITY OF ACCOUNTING SYSTEMS

A well-managed, centrally controlled computer system provides the capacity to generate dependable data and maintain it in comparable formats. This, in turn, aids in the production and presentation of the financial data. Adequate information management capacity and tools are found to be a prerequisite for a timely and accurate CAFR reporting.

THE DESIRE TO RECEIVE THE GFOA CERTIFICATE

The Government Finance Officers Association (GFOA) awards its Certificate of Achievement for states that issue CAFRs within six months of its FYE. Earning this certificate is a worthwhile professional distinction and the GFOA has done an excellent job of using the certificates to encourage states and their officials to issue their annual reports on a timely basis. Using this 180-day benchmark, our analysis shows that only about half the states are eligible to earn this important distinction.[3]

[3] It is important to note that the GFOA often issues the certificate, even though the states do not meet the six months requirement, citing extenuating circumstances.

ADEQUATE RESOURCES, INCLUDING PERSONNEL

A great deal of staff time and effort in a condensed period of time is needed to produce the CAFR on a timely basis. Therefore, the office that prepares the CAFR must have the resources needed to make this possible.

IS THE FEDERAL AND CORPORATE STANDARD OF 45 DAYS POSSIBLE?

The federal government and most corporate financial reports are issued within forty-five days of their respective FYEs. Many question why states cannot meet this goal. Our interviews with people who have state government accounting experience reveal that most believe it would be impossible to prepare a state CAFR in less than ninety days, much less forty-five days. Besides the internal difficulties of accumulating and auditing the necessary financial information, obstacles outside the CAFR preparer's control may exist.

For example, the federal government is slow at reimbursing state Medicaid costs. This makes it difficult to determine the amount the state owes its medical providers at FYE. The state of Michigan uses estimates to work around these types of issues. In other cases, proposed legislation may affect the FYE financial data, forcing the CAFR preparers to wait until the legislation is signed (or not signed) into law before the CAFR may be completed.

In summary, the GFOA 180-day benchmark is the most useful criterion in determining whether a state has issued a timely CAFR. This timeframe allows legislators and other officials the opportunity to review the state financial performance as they prepare future budgets. The ability to review prior years' financial reports before the next year's budget process begins provides citizens and their elected officials with critical financial information needed to be knowledgeable participants in this crucial decision making process.

Chart A: Summary of Timeliness of CAFR Release

State CAFR Timeliness Rankings

Timely	Avg.	Tardy	Avg	Worst	Avg
22 States		21 States		6 States	
Alaska	168	Alabama	182	Arizona	318
Arkansas	175	California	279	Connecticut	332
Colorado	172	Delaware	196	Illinois	316
Idaho	168	Florida	226	New Mexico	602
Iowa	171	Georgia	196	Ohio	295
Maryland	158	Hawaii	261	South Dakota	299
Massachusetts	176	Indiana	182		
Michigan	120	Kansas	183		
Minnesota	156	Kentucky	205		
Montana	172	Louisiana	214		
Nebraska	177	Maine	202		
Nevada	168	Mississippi	207		
North Carolina	162	Missouri	221		
North Dakota	180	New Hampshire	232		
Oregon	180	New Jersey	212		
Pennsylvania	175	New York	205		
South Carolina	145	Oklahoma	212		
Tennessee	169	Rhode Island	232		
Utah	139	Texas	181		
Virginia	167	Vermont	193		
Washington	171	West Virginia	250		
Wisconsin	167	Wyoming	186		
Average	165		212		360
Best		Median		Worst	

Note: These are the average number of days between the end of the state's respective FYE 2005, 2006 and 2007 and the release of the CAFR by the state official statutorily responsible for producing the report.

OTHER FINDING: EXPOSURE OF FINANCIAL FACTS CHANGES BEHAVIOR

While not an initial goal of this Study, it is important to understand what happens when an entity reports its truthful financial condition. Our sense is that private and public organizations making accounting changes also exhibit significant changes in their operations.

In the 1990's, American corporations and other private sector entities were required to recognize the full actuarial costs of their pension promises. In the short-term, this change in GAAP accounting requirements led to three outcomes: companies that had overfunded their pensions reported an increase in net assets; companies that had underfunded their pensions reported an increase in liabilities and those who were "just right" experienced no balance sheet effects.

The long-term effect of this accounting imperative was that many companies abandoned defined benefit plans in favor of defined contribution plans. This change requires plan sponsors to pay defined contributions **currently**, eliminating the option of deferring payments into the future. Now, nearly all private companies have moved to defined contribution plans while nearly all state governments have continued their defined benefit plans. We believe one of reason that governments stay with defined benefit plans is because they are not required to fully report their accumulating pension obligations. Therefore governmental officials and the public do not fully understand the risk involved with such plans.

Some foreign governments, including New Zealand and Australia, have adopted accrual accounting. The effect of changing to accrual accounting has had at least two benefits for these foreign governments. First, accruing cost has changed the behavior of government employees in significant ways. Because they are assessed depreciation charges for the assets they employ, managers have a great incentive to minimize the assets they buy, as well as to dispose of assets that are under-utilized. In addition, the cost of government is more closely matched with the utility it provides.

New Zealand officials decided to terminate the defined benefit public employee pension program after pension liabilities were recognized on the balance sheet and the expense incurred was included in the budget. When the full service cost of public employees is recognized, citizens are told the real costs of the government benefits and services received.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

- Information necessary to make knowledgeable decisions is not available
- Balanced state budgets are largely a myth
- State governments circumvent the intent of balanced budget laws
- Most states do not issue comprehensive annual reports on a timely basis
- Using GASB GAAP to calculate budgets wouldn't result in a truer presentation

RECOMMENDATIONS

The financial difficulties in which states find themselves result from many causes. The economy, tax revenues, governmental operating costs rise and falls, but consistent contributors to the state fiscal problems are the budgeting practices and accounting deficiencies that almost encourage unsustainable public policy.

This section presents several changes that the authors of this Study believe would improve state government transparency and accountability. These include recommendations of change in accounting principles that state legislatures and executives should undertake.

The following is a summary of our recommendations categorized by the group we think should be charged with making the changes:

- Recommendations to elected officials
    - Review balanced budget requirements.
    - Demystify balance budget myths.
    - Include all expenses in budget calculations.
    - Emphasize *fiscal deficits*.
    - Provide support and resources to accelerate CAFR preparation.

- Recommendations to CAFR preparers
    - Include fiscal deficit calculations in annual reports.
    - Provide budget versus actual comparisons.
    - Issue annual reports before the budget process.

- Accounting principle recommendations
    - GAAP used by states should be improved.
    - Put retirement liabilities on state balance sheets.
    - Remove fund statements from annual reports.

- Recommendations to the public and public interest organizations
    - Demand accurate financial information.
    - Work to get states' true financial positions calculated.
    - Take steps to understand the issues.
    - Prepare for coming debates on state sustainability.

- Last Word
    - **Insist on *Truth in Accounting***

CONCLUSIONS

INFORMATION NECESSARY TO MAKE KNOWLEDGEABLE DECISIONS IS NOT AVAILABLE

Budgeting is the process that states use to resolve the large number of often-conflicting objectives that citizens and their representatives address through government action. Nothing could be more important than these debates. To make these critical decisions about allocating the public's resources, truthful and transparent information must be available.

Unfortunately, state legislatures, governors and the public do not have the information needed to make knowledgeable decisions during state budget processes. State budget calculations are flawed because unrealistic revenue estimates are included, and the cash measures used to document expenditures leave out massive amounts of costs, including pension and post-employment health care expenses. The standards used to prepare state annual reports are also faulty because they also do not include all of the post-employment costs which have been incurred during the accounting period but will not be paid until future periods.

One of the consequences of these deficiencies is that the public and their elected officials cannot make knowledgeable decisions about state finances and state government accountability. In the longer term faulty information is, and has been, a significant enabler of the public policies that are now becoming evidently unsustainable.

BALANCED STATE BUDGETS ARE LARGELY A MYTH

The primary purpose of a state government's budget is to allocate to it the scarce resources available. Since there will always be more demand for resources than there are funds available, the government must set priorities and rank those projects it undertakes by some priority hierarchy. The state budget expresses those priorities in the form of a spending plan.

To ensure that governors and legislatures live within its means, state constitutions and statutes impose balanced budget requirements. The plain meaning of "balance" indicates that operating the state will not incur additional debt that must be repaid in a future period and that obligations for services consumed today--but to be paid in the future--have been provided for today. When politicians claim they have "balanced the budget" they imply that they will spend only the amount of resources available and that no new debt will be incurred.

Regrettably, our review of budget information included in state annual reports revealed that the majority of states report that their budgets are **not** balanced, regardless of the requirements that revenues and spending be matched to obviate new debt. It is the sense of this Study that most governmental officials are aware that their spending exceeds their revenues and the effect is that states have accumulated billions of dollars in debt, even though they claim to have balanced their budgets for years.

STATE GOVERNMENTS CIRCUMVENT THE INTENT OF BALANCED BUDGET LAWS

Every state, except Vermont, has a balanced budget requirement to prevent financial difficulties and to improve public accountability. When demand for state services exceeds the limited resources, balanced budget laws impose legal limits on spending. The GASB believes that balanced budget laws are tools to maintain inter-period equity, because these requirements reduce incumbents' ability to promise current taxpayers benefits and services by shifting the burden of paying for these costs onto future year taxpayers.

When supply and demand of public resources collide, it upsets the political status quo. In turn, it motivates politicians to find ways to escape the spending limitations. They have discovered that deficiencies in budgeting and accounting principles provide convenient ways to evade the legal limitations on spending. The ambiguous ways these laws are written makes it easy for legislatures and governors to play word games and to prepare unrealistic calculations that produce budgets that are clearly not balanced.

They accomplish this by overestimating revenues, underestimating costs or a combination of both. The cash basis method used to calculate budget allows these accounting shenanigans. For example, it permits borrowed money to be included as inflows (revenues). It also allows proceeds from one-time sales of state assets to be used to pay current expenditures. Cash basis budgeting allows easy manipulation by government officials who postpone cash payments of current bills. Legislatures avoid an immediate effect on the current state budget by promising retirement benefits rather than increase state employees' currently payable salaries. All these techniques are used to evade the intent of balanced budget requirements.

The net effect of these circumvention techniques is to excuse the legislature from making tough decisions about the level of benefits and the extent that they will have to tax voters to pay for them. These tricks have costs however; they transfer today's obligations to future taxpayers who have no voice in the current deliberations. It is the very definition of taxation without representation.

Since this Study commenced, it has become apparent that these tricks may no longer be working. Governors of some of the largest states are asking the federal government for hundreds of billions of dollars in "bail out" money. In late October 2008, New York Gov. David Paterson told a House Ways and Means Committee that "States need direct and immediate relief", especially for state health care. New Jersey Gov. Jon Corzine also asked for federal relief.[xliii] In an October 21, 2008 letter to congressional leaders, California Gov. Arnold Schwarzenegger joined the state-bailout campaign. [xliv] Each of these states has a balanced budget requirement yet they are asking the rest of the nation to fund operating expenses. The reason may be that the federal government does not have a balanced budget requirement and can print or borrow the money as needed adding to the existing $60 trillion in debt and unfunded promises the federal government has accumulated.[xlv]

MOST STATES DO NOT ISSUE COMPREHENSIVE ANNUAL REPORTS ON A TIMELY BASIS

Each Comprehensive Annual Financial Report provides crucial data about the execution of the budgets, so it is essential to have the annual report available when creating a new budget. Scrutiny of the CAFR by legislators and the governor can provide valuable input when working to allocate the state resources.

The CAFR contains the preparer's transmittal letter. The date on this letter was used in this Study to determine when the annual report was published. Our study found that most states' annual reports were not published until six months after the end of the prior fiscal year. Nine states routinely published their annual reports more than eight months after the fiscal year end, which we assume is after the states' budget processes are complete. Therefore, the annual reports are most likely not available during the states' most critical decision making process.

USING GAAP TO CALCULATE BUDGETS WOULDN'T RESULT IN A TRUER PRESENTATION

As previously discussed, state annual reports are calculated using Generally Accepted Accounting Principles (GAAP) as established by the GASB. Because the GASB is supposedly an independent board, we assumed that if state budgets were calculated in concert with GASB GAAP, then state budget numbers would be more accurate than the numbers produced using cash basis accounting.

When we compared state budget surplus/deficit numbers to the GAAP surplus/deficit numbers, we were surprised to find that while most states reported budget deficits, the states' Statement of Net Activities reported GAAP surpluses. This was especially astonishing in light of news articles reporting that the states are in extreme financial trouble and that state officials have asked Congress for bail outs.

Because we found that states reported GAAP surpluses, we expanded our research to determine if state financial statements, done in accordance with GASB GAAP, report accurate pictures of state finances. An extensive review of the GASB standards used to prepare the financial statements revealed major accounting deficiencies that result in enormous amounts of liabilities not being reported on state balance sheets. These off-balance sheet liabilities, which could amount to more than $2 trillion, include pension and other post-employment benefits, such as health care.

This determination has led us to conclude that the use of GAAP as it currently exists, as a basis for budget calculations, would not provide states with a true picture of the financial consequences that would result from current budget decisions. Therefore, we searched for other budgeting models that may produce more accurate budget numbers and that would enable legislatures and the public to understand the long term consequences of current budget decisions. As a part of this research we evaluated the accrual budgeting methods used by other countries. We have concluded that, in addition to cash basis measures, state governments' budget calculations should include full accrual basis[4] measures.

State governmental officials will resist these necessary improvements to budget calculations because they are trapped in a dilemma. They need to meet balanced budget requirements while providing the greatest amount of state services and benefits at the lowest amount of taxes. GASB GAAP allows them to accomplish these conflicting goals—only on paper.

[4] Full accrual accounting is not the same as accrual accounting under GASB GAAP. Full accrual accounting recognized all expenses included the actuarially determined cost of post employment benefits.

RECOMMENDATIONS

RECOMMENDATIONS TO ELECTED OFFICIALS

REVIEW BALANCED BUDGET REQUIREMENTS

State governors and legislatures should review the intent of balanced budget requirements. They should then determine if those intentions are being honored or if loopholes have been found that frustrate the object of balanced budget requirements. If the intentions are not being met, legislatures need to change the balanced budget statutes to compel the adoption of truly balanced budgets.

To achieve truly balanced budgets, to prevent financial difficulties and to improve public accountability, we recommend including verbiage in balanced budget statues similar to the following:

> *The Governor shall not propose expenses and the General Assembly shall not enact any expense appropriations that exceed the revenues estimated to be earned during the budgeted period. The State budget shall be prepared on the basis of revenue and expense measurement concepts that are in concert with full accrual basis of accounting. All expenses expected to be incurred within the budgeted period shall be included. These expenses shall include, but are not limited to, ordinary operating costs and the increases/decreases in the actuarially accrued liabilities for employees' pension and other post-employment benefits.*

DEMYSTIFY BALANCED BUDGET MYTHS

The goal of most state budget processes is to reach balance. At the end of each year's budget process, numerous news stories and governmental press releases highlight the gubernatorial and legislative proclamations that they have enacted a "balanced" budget. Such declarations leave citizens believing that state governments have not had to go into debt to cover expenses. After all, **balanced** budget requirements exist so that state governments live within their means. To most citizens, this means the state's budgeted bills are expected to be covered by revenues the state estimates it will collect.

Unfortunately what the public is led to believe is not the true condition as it exists. The state budget, while claiming to be "balanced" is not. In a later recommendation we suggest that the budgeting and accounting standards that permits these balanced budget claims be revoked. Until these changes come, we also recommend that it becomes the duty of legislators, governors, treasurers, comptrollers and their staff to let citizens know that even though budgets are ostensibly balanced, the states are going further and further into debt.

The public must be told the truth. The term "balanced budget" is a misnomer. We recommend that before a "balanced" budget is adopted, the public should be informed of the following:

- The amount of the state bills that will be incurred, but not paid during the budgeted year;
- The amount the proposed budget's policies will increase the state debt, including the money required to be borrowed to balance the budget on a cash basis;
- The amount of the increases in the pension and other post-employment benefits promised;
- The one-time revenue transactions that will be entered into, including the funds that will be transferred from dedicated or trust funds; and
- The annual fiscal deficit that is forecasted if the proposed budget is passed.

INCLUDE ALL EXPENSES IN BUDGET CALCULATIONS

State balanced budget requirements exist to foster governmental accountability and sustainability. To make informed public policy choices, decision makers, including the public, need a more complete picture of the state's fiscal position than the current cash basis budget calculations can provide. Additional information needs to be taken into account; i.e. the future obligations of the state, including costs and revenues as they accrue regardless of when they must be paid.

Accordingly, states need a new kind of budget discipline that would confront the actuarial exposures created by promises of future benefits and other liabilities that are currently off-budget and off-balance sheet.[xlvi] We recommend the budget calculations include full accrual basis measurements of all liabilities and obligations.

Full accrual budgeting would provide the information needed because it recognizes all expenses incurred during the period, including the cost incurred for pension and other post-employment benefits. Accrual accounting more accurately reflects economic realities which would provide citizens with the information necessary to determine if their elected officials are living up to their responsibilities by reporting the full consequences of their fiscal behavior.

We are **not** recommending the elimination of cash budget calculations. We are recommending that the cash budget calculations be augmented with full accrual budget calculations. Cash budgeting is integral to maintain control over spending and to ensure compliance with appropriation laws. Cash measures are effective for cash management purposes, including identifying borrowing needs. But, as longer term commitments have come to dominate state tax and spending decisions, such cash measurements have become less meaningful and should no longer be the principal indicator of state fiscal affairs.

EMPHASIZE FISCAL DEFICITS

Over the years, the use of the cash budgeting technique has allowed governors and legislators to obligate future taxpayers without much effect on current budgets. This has been an "easy" method to manage state finances because it allows the government to spend currently but to shift actual payment into the future.

One effect of moving to a full accrual system of budgeting and accounting would be to expose the effect of those habitual cash budgeting decisions. Such an accounting change would immediately recognize—and place on the balance sheets—the long-term liabilities that are the economic result of entitlements, pensions and other benefits that have been legislated and promised over the years.

Regardless of whether the states move to a more accurate accrual accounting system, we recommend each state calculate its deficit or surplus, using the full accrual accounting method, and report that number each year as its "fiscal" surplus or deficit.[5] The basis of the fiscal deficit calculation should be the GASB's version of accrual basis of accounting, except that the actuarially determined costs of post-employment benefits would be fully reported.

Using Illinois' situation as an example, Table 1 presents two methods for calculating a state's fiscal deficit:

- The first method calculates the fiscal deficit by subtracting the off-balance sheet post-employment benefit liabilities from the state's net assets.
- Another way to calculate the fiscal deficit is to start with the state's assets then subtract the total liabilities, add back the net pension obligation then subtract the actuarial accrued liabilities for pensions and other post-employment benefits.

Table 1	
The State of Illinois	
Fiscal Deficit Calculations	
June 30, 2007	
Governmental Activities	(in millions)
Total Net Assets	$ (20,402)
Off Balance Sheet Liabilities	
Pension	$ (25,086)
Other Post Employment Benefits	$ (24,200)
Fiscal Deficit	**$ (69,688)**
Total Assets	$ 30,840
Total Liabilities	(51,242)
Add back Net Pension Obligation included in liabilites	17,091
Unfunded Actuarial Accrued Liabilities	
Pension Systems	(42,177)
Other Post Employment Benefits	(24,200)
Fiscal Deficit	**$ (69,688)**

The forecasted fiscal deficit would be an estimate of the financial effect of budget policies. Actuaries should be utilized to determine the increase or decrease of the unfunded actuarial accrued liabilities of pension and other post-employment benefits.

An annual fiscal deficit should be calculated and compared with the cash basis surplus/deficit. The forecasted annual fiscal deficit would be the difference between the beginning forecasted fiscal deficit and the ending forecasted fiscal deficit.

[5] To simplify this discussion we will use the term "fiscal deficit".

Most countries, who utilize accrual budgeting, are able to include both the cash and accrual basis budget calculations by issuing forecasted budget documents. The Forecasted Operating Statement, which would detail the annual fiscal deficit, is prepared on the full accrual basis.[xlvii] Most of the countries, who utilize similar full accrual budgeting, also include a Forecasted Balance Sheet in their budget documents. This statement estimates the assets and liabilities of the government and takes into account the long term financial impact of proposed policy decisions. The Forecasted Balance Sheet would include the Fiscal Deficit. Budget documents also include the Forecasted Statement of Cash Flow, which assist in determining borrowing needs.

To expose the state government to a greater degree of public scrutiny and accountability, the citizens and their elected representatives must be informed of the current and long term financial consequences of the spending and revenue decisions included in the budget. The inclusion of both cash basis and full accrual basis budget calculations would provide information about these consequences. Including fiscal deficit amounts, calculated under the full accrual budget method, is necessary because states are now engaged in the business of making long term promises.

By producing the fiscal deficit calculations, legislators and the public would be able to determine the long term consequences of the policies that will be adopted with the passage of the budget. Incorporating these types of full accrual measurements into the states' budget processes will improve incentives to address the longer-term implications of current decisions by better reflecting year-to-year changes in states' assets and liabilities. As reported in the "Other Findings" section, accounting changes of this sort **do** result in policy changes.

PROVIDE SUPPORT AND RESOURCES TO ACCELERATE CAFR PREPARATION

We recommend legislators and governors provide the support and resources needed to accelerate the preparation of the CAFR so it is available during each state's most important decision making process—the budget. Legislators and governors should educate themselves about the important information included in the financial report, including the truer liabilities for pension and other post-employment benefits.

RECOMMENDATIONS TO CAFR PREPARERS

INCLUDE FISCAL DEFICIT CALCULATIONS IN ANNUAL REPORTS

Until improvements are made to GASB GAAP, the preparers of state annual reports should include in the Management's Discussion and Analysis schedules showing the state's fiscal deficit and the annual fiscal deficit. Table 2 provides an example for these fiscal deficit schedules. The Fiscal Deficit Schedule should report Total Assets and Total Liabilities. The Total Liabilities reported should include State Bonds, Unfunded Accrued Actuarial Liabilities for Pension Plans and Other Post-employment Benefit Programs, and Other Liabilities. The difference between the Total Assets and Total Liabilities would be the state's Fiscal Deficit. The schedule should report these items for the last two fiscal years. The Schedule of Annual Fiscal Deficit should resemble the state's Statement of Net Activities.

PROVIDE BUDGET VERSUS ACTUAL COMPARISONS

We recommend the budget documents include a Forecasted Fiscal Deficit Schedule, a Forecasted Annual Fiscal Deficit Schedule and a Forecasted Statement of Cash Flows. We are also recommending the Management Discussion and Analysis included in the CAFR present a Fiscal Deficit Schedule, an Annual Fiscal Deficit Schedule, and an Annual Fiscal Deficit to Cash Schedule. The Fiscal Deficit Schedule would represent the state's Balance Sheet reported using the full accrual basis, including the actuarially determine pension and other post-employment benefit liabilities. The Annual Fiscal Deficit Schedule would represent the state's Statement of Activities also calculated on the full accrual basis. The Annual Fiscal Deficit to Cash Schedule would mirror the state's Statement of Cash Flows, but starting with the annual fiscal deficit, calculated on the full accrual basis, instead of using the cash flows from operations calculated using GASB GAAP.

Combining the Forecasted budget schedules with the actual (historical) schedules included in the Management Discussion & Analysis would provide a full accrual based budget to actual comparison. See Table 2.

Table 2
State of Anystate
Fiscal Deficit Schedule
For Fiscal Year Ended Month Day, Year

	Year 2	Forecasted Year 2	Variance Over (Under)	Year 1	Forecasted Year 1	Variance Over (Under)
Governmental Activities						
Total Assets	$xx,xxx	$xx,xxx	$x,xxx	$xx,xxx	$xx,xxx	$x,xxx
State Bonds	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx	x,xxx
Unfunded Accrued Actuarial Liabilities						
Pension Plans	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx	x,xxx
Other Post Employment Benefit Programs	xx,xxx	xx,xxx	(x,xxx)	xx,xxx	xx,xxx	(x,xxx)
Other Liabilities	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx	x,xxx
Total Liabilities	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx	x,xxx
Fiscal Deficit	$xx,xxx	$xx,xxx	$x,xxx	$xx,xxx	$xx,xxx	$x,xxx

Providing budget versus actual numbers will enable legislatures to determine if the policies implemented through the budget process are having the desired outcome. If the actual numbers indicate that the outcome being sought is not being achieved, then legislatures could consider changes in policies during the next budget process.

ISSUE ANNUAL REPORTS BEFORE THE BUDGET PROCESS

Other entities, including the federal government, issue their annual reports within forty-five days after their fiscal year end. States should work toward having their annual reports issued more timely. At a minimum, states should have their reports published before their budget processes commence.

We also recommend that the official responsible for issuing the CAFR create interim reports as do publicly traded companies. That would give legislators and citizens the information they need on a more timely basis.

ACCOUNTING PRINCIPLES RECOMMENDATIONS

GAAP USED BY STATES SHOULD BE IMPROVED

GASB GAAP does not give all stakeholders an accurate diagnosis of the financial health of state governments because the accounting principles recommended are biased towards the interests of government officials. The current structure and funding mechanism of the GASB make it difficult for members of this board to not be influenced by constituency groups that represent governmental officials and their staff. This has resulted in compromised standards such is the case with GASB 34, which requires unnecessary amounts of fund statements. GASB 27 and 45 are also deficient because they do not require the full reporting of liabilities for post-employment benefits, such as pensions and retirees' health care.

The GASB's "Concept Statement No. 1" describes "the nature of information needed by users of external governmental financial reports and gives consideration to the governmental environments". The following was noted in that Statement:

- "The Board believes that financial reporting plays a major role in fulfilling government's duty to be publicly *accountable* in a democratic society. Public accountability is based on the belief that the taxpayer 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."
- "The Board also believes that financial reporting should provide information to assist users in assessing inter-period equity by showing whether current year revenues are sufficient to pay for current year services or whether future taxpayers will be required to assume burdens for services previously provided."[xlviii]

The results of this Study clearly show that the financial reporting produced under the GAAP mandated by the GASB does not allow these objectives to be met by state governments. State annual reports do not provide taxpayers with "openly declared facts that may lead to debate by the citizens and their elected representatives". The exclusion of the states' true liabilities for post-employment benefits, such as pensions and health care, does not "provide information to assist users in assessing inter-period equity".

Deficiencies in GASB GAAP make it impossible for the basic financial statements prepared using these standards to present the economic realities of state governments' expenses and liabilities. Three major enhancements need to be made to GASB GAAP, so annual reports accurately reflect the financial consequences of states' policies. These enhancements are:

- Report the full pension liabilities on state balance sheets;
- Report total liabilities for other post-employment benefits on the state balance sheet; and
- Remove the fund statements.

PUT RETIREMENT LIABILITIES ON STATES' BALANCE SHEETS

In October 2007 former SEC Chair Arthur Levitt declared, "It's time to improve accounting standards for public pension and healthcare obligations to make sure that all liabilities are reported in the balance sheets of state and municipal governments, not just in their footnotes."[xlix]

Under GASB GAAP the amount that state pensions were under funded prior to 1997 is being amortized over 40 years. If states enact pension benefits increases, these enhancements can be amortized up to 30 years. Therefore the full pension liabilities are not currently reported on states' balance sheets; instead these huge commitments are disclosed in footnotes and Required Supplemental Information.

Most state governments did not disclosure any information about the liabilities for other post-employment benefits in the annual reports we studied. State annual reports published in 2009 will require some disclosure of about these liabilities which some are predicting could be as high a $1.6 trillion. Unfortunately, the GASB is allowing state governments to amortize their pre-2008 under funding over a maximum of 30 years as is permitted for like pension accounting. Once again these enormous liabilities will continue to be considered an off-balance sheet liability.

To facilitate real accountability, the GASB should mandate:

- One-time prior period adjustments that would require the recording as on-balance sheet liabilities the full amount of the states' unfunded actuarial accrued liabilities for pension and other post-employment benefits.
- That in the year that post employment benefits are enhanced, the state annual report should report as expenses the amount that unfunded, accrued actuarial liabilities increases. This immediate recognition would provide the public with the information needed to make a knowledgeable decision about the consequences of the legislatives' decision, including a determination of inter-period equity.

REMOVE FUND STATEMENTS FROM ANNUAL REPORTS

One characteristic that distinguishes Comprehensive Annual Financial Reports that states prepare from private sector annual reports is the inclusion of accounting for numerous fund balances. This accounting includes the beginning balances, the funds' annual activities, and the ending balances of the funds. The presentation of these accounts unnecessarily complicates the CAFR, delays its production and, distracts and confuses the reader. We recommend dropping the requirement that all funds be included in the annual report. Doing so would simplify the report and would make completing it in time to be useful more likely. Instead, we recommend that effort be shifted to the preparation of government-wide statements in the CAFR on a full accrual basis. This would provide the information necessary to judge sustainability and accountability in a simpler, more familiar form.

RECOMMENDATIONS TO THE PUBLIC AND PUBLIC INTEREST ORGANIZATIONS

DEMAND TRUTHFUL FINANCIAL INFORMATION

Governments derive their just powers from the consent of the governed. Governmental entities therefore have a special responsibility to report on their actions and the results of those actions. These reports must provide information useful to the citizens and their elected representatives. Providing this information to the public, news media, and elected officials is an essential part of accountability in government.[1] The GASB recognizes that "accountability requires governments to answer to the citizenry---to justify the raising of public resources and the purposes for which they are used." The GASB points out that, "financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic system". To be knowledgeable participants in their governmental entities citizens must demand transparency and accountability.

WORK TO GET STATES' TRUE FINANCIAL POSITIONS CALCULATED

During our country's difficult financial times it is more crucial than ever that the public and their elected officials know the true financial condition of their state. Because of the lack of transparency in the reporting of the liabilities for post-employment benefits, we found it impossible to make an accurate calculation of the financial condition of states, as a part of this Study. Most states have grossly underfunded their retirement systems and an analysis of the impact such practices will have on future taxpayers is seriously needed.

It is incumbent on the public to insist that their governments produce and distribute this financial information. Citizens interested in public affairs should organize to develop the political acumen necessary to lead politicians to the same conclusion.

If public officials are unwilling to take on the job, private citizens should do it themselves. One obvious task for private sector organizations would be to calculate their state's pension and other off-balance sheet liabilities to approximate each state's true financial position. The Institute is working with several organizations in other states to begin the process and to obtain the resources needed to do these essential calculations.

TAKE STEPS TO UNDERSTAND THE ISSUES

The profundity of the financial challenges facing many state governments has been possible only because most citizens are ignorant of the scale and immediacy of the problem. Developments in the last half of 2008 and in early 2009 show that states which have reported what appeared to be acceptable financial positions are, in fact, functionally bankrupt. States are now seeking federal assistance. The irony is that the federal government is in exactly the same financial position as are the states.

We recommend that individuals and organizations take steps to help themselves and their fellow citizens to understand the size and nature of their state's true financial condition. Only by understanding the entire picture can voters make informed decisions. The public and public organizations need to determine:

- If the proposed budget is truly balanced and, if it is not;
- The extent to which future taxpayers are being burdened;
- The burdens created by prior legislation;
- The validity of future obligations created by current and former policies;
- The timeliness of the budget with respect to the legislatures' vote (i.e. is it published in final form with enough time for legislators to actually read it before making budget decisions.); and
- If the CAFR is published within the 180 day standard and what progress is being made to meet the 45 day standard the federal government and private companies meet.

With the baseline data collected, individuals and organizations will have taken a first step towards understanding the true extent to which budgeting practices and accounting rules empower political choices, good or bad. Given the likelihood of a sustained economic downturn and resulting demand for more governmental benefits, states will experience increasing financial demands. Making the public policy decisions necessary to endure these pressures will require an honest assessment of current financial conditions and their likely trajectory.

PREPARE FOR COMING DEBATES ON STATE SUSTAINABILITY

Most state governments have cumulated large fiscal deficits. There are only three ways to reduce these deficits; increase revenues, cut spending or a combination of the two. The public must not be fooled by schemes that purport to resolve deficits, but really only shift revenues into earlier years and expenses into later years. Such schemes may provide political cover in the short run, but do nothing to resolve the states' long run financial problems.

Continuing to defer current cost into the future will only make the problem worse. We therefore recommend that analysts pay particular attention to the nature and cost of deferred pension and other post-employment benefits. It is important to understand these costs because they are the most **direct** threat to a state's long-term fiscal prospects. Since the costs of retirement benefits are not fully recognized in the current, cash basis budget, politicians have little immediate incentive to control those costs. Indeed, some management experts would hold to the premise that because these costs are not measured inside the annual budget it makes them **impossible** to control.

With the current economic down-turn and the unsustainability of many states' fiscal position the restructuring of their multibillion dollar retirement systems might be considered. To be active participants in the debate about this restructuring, civic organizations and individuals should become knowledgeable about the terms and conditions of current civil benefit programs.

ONE LAST WORD

Unfortunately, truthful accounting is not always in the interests of politicians and bureaucrats. Without regard to motives, the current state of the accounting art for federal, state and municipal governments has resulted in a massive amount of unfunded liabilities that will have to be paid . . . . eventually. The public is becoming aware of these and the looming bills' long-term effect on our future living standards.

The first step to remedying these growing problems is to recognize the fiscally toxic combination of demands for public services and lax accounting principles. We must recognize that public sector accounting is the enabler that has allowed past elected officials to transfer prior costs to us. If we do nothing to improve state government budgeting and accounting systems, then our costs will be selfishly shifted to our children, our grandchildren and to **their** children. By insisting that our politicians properly account for their activities, we could demand that they stop digging the hole any deeper. This is not a partisan, Left or Right issue; it is a question of right or wrong. Fixing it is simply put:

It requires *Truth in Accounting*.

STATE DATA

Roll Out Of States

HOW TO READ THESE DATA SCHEDULES

These data schedules present the basic financial information for each of the fifty states with an emphasis on determining the difference between the budgetary presentations and the actual results as reported by each state's Comprehensive Annual Financial Report. The following sections explain the information contained in the Roll of the States**.**

ARRANGEMENT OF THE STATES' REPORTS

Each state report consists of a narrative explanation of that particular state's balanced budget requirements which indicates the standard the legislature must observe in appropriating expenditures. The numerical presentation is a schedule analyzing three years' actual results.

CAFR Timeliness

The first column of each states numerical presentation is the "CAFR Timeliness" column. The "State CAFR Timeliness Rankings" (see Chart A on page 35) is a ranking of the state's CAFR Timeliness. The number in this column represents the number of days between the state's fiscal year end and the date on the CAFR preparer's transmittal letter included in each state's annual financial report. Please see page 32 for a discussion of importance of timely of CAFR reporting.

All Governmental Funds Items

The report includes the financial results for fiscal years 2005, 2006 and 2007 for each state. Only the governmental funds activities are included, not business type activities or component units. The analysis starts with the funds' beginning balances for each fiscal year, reports net transactions and then shows the funds' ending balances. The effects of any prior period adjustments are also included. To avoid overwhelming the reader, we did not include the revenues and expenditures or expenses for each fiscal year. The objective was to determine the "net transactions", the most important finding in governmental budgeting and accounting. A positive "net transactions" is considered a "surplus" while a negative "net transactions" is considered a "deficit".

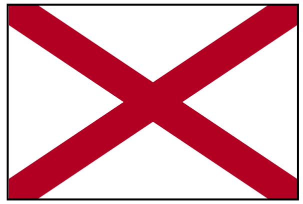
GAAP Basis

In the GAAP Basis column are the financial results of transactions calculated using GASB GAAP. These amounts are derived from each state's CAFR, specifically, the state's Government-wide Statement of Net Activities. The GAAP Basis net transactions amount is the "Change in Net Assets" for the each fiscal year. As noted on each state's page the readers should be aware that the GAAP Basis balance is not an accurate representation of the state's financial condition, because significant liabilities are not included. These liabilities are for the pension and other post-employment benefits, such as health care.

Budgetary Basis

The Budgetary Basis column presented for each state is derived from the Budgetary Comparison Schedule, which is required by the GASB to be included in the CAFR. This schedule should present the original budget amounts and the financial appropriated budget amounts, as well as the actual inflows, outflows, and balances stated on the government's budgetary basis. The amounts included in this Study's "Budgetary Basis" column for each state is derived from the original budget, when available. The original budget is the first complete appropriated budget which is signed into law. This original budget is the one on which the claims of "balanced budgets" are made. Amendments to the budget during the year may result in increased spending which will modify the initial budget and, of course, bring the once "balanced" budget out of balance.

ALABAMA



Little River Canyon
Canyon Mouth
Day Use Area
Photo by: Dean Biggins
U.S. Fish and
Wildlife Service

Alabama is required to pass a "balanced budget". The Constitution of 1901 has numerous amendments addressing the call for a balanced budget. Of particular note is Amendment No. 26, ratified in 1993, which calls for a proration of state funds when the revenues actually received are less than the obligations appropriated by the legislature and approved by the governor. Moreover, the law calls for the fine and imprisonment of anyone violating this provision. Section 41-4-90 of the State law charges the Governor with watching drafts from the various state funds, and is mandated to restrict disbursements if they would cause an overdraft or a deficit. Alabama law forbids the carrying over of a deficit from one year to the next.

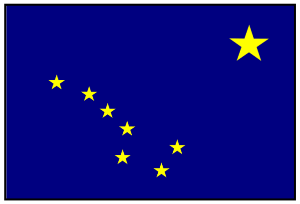
Individual major funds include: General Fund, Alabama Trust Fund, Education Trust Fund, Public Road and Bridge Fund, Public Welfare Trust Fund, and Alabama Medicaid Fund. The State budgets three funds: the General Fund, the Education Trust Fund, and the Earmarked Funds. It is not clear what is included in "Earmarked Funds". The Budgetary Comparison Schedules are missing several pieces of information needed for analysis, such as the net transactions, beginning balances, and ending balances.

CAFR Timeliness	All Governmental Funds Items (in millions)	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 19,798	$ -
	Net Transactions	$ 1,314	$ -
82	**FY2005 Ending Balance**	**$ 21,112**	**$ -**
	Period Adjustment	$ 13	$ -
	FY2006 Beginning Balance	$ 21,125	$ -
	Net Transactions	$ 1,356	$ -
182	**FY2006 Ending Balance**	**$ 22,481**	**$ -**
	Period Adjustment	$ (62)	$ -
	FY2007 Beginning Balance	$ 22,419	$ -
	Net Transactions	$ 460	$ -
183	**FY2007 Ending Balance**	**$ 22,879***	**$ -**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Alabama Comptroller's website:
www.comptroller.state.al.us
Alabama's Comprehensive Annual Financial Reports can be found at:
http://comptroller.alabama.gov/pages/CAFR.aspx

ALASKA



Male Caribou
By Dean Biggins
U.S. Fish and
Wildlife Service

Alaska is required to pass a "balanced budget". Section 37.07.020 of the state law mandates proposed expenditures may not exceed estimated revenue for the succeeding fiscal year. Section 37.07.014(e) commands the legislature to modify estimated receipts and revenues to ensure a balanced budget. Alaska law forbids the carrying over of a deficit from one year to the next.

Alaska limits appropriations to the appropriations limit from the previous year, adjusted for inflation and the change in population plus 5%. This is commonly called "budgeting for fiscal discipline," and is a way to keep the growth of appropriations from outpacing the growth in revenues from year to year.

The State has three major funds, the General Fund, the Alaska Permanent Fund, which are included in the governmental funds statements, and the International Airports Fund, which is included in the business-type activities funds statements. Only two of these major funds are budgeted (the General and Alaska Permanent), along with a few other permanent funds and non-major special revenue funds. Although information is well arranged and "total" columns are included, the Budgetary Comparison Schedules are missing beginning and ending balances. There is a considerable difference between actual and budgeted figures.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 35,613	$ -
	Net Transactions	$ 3,163	$ 1,721
168	**FY2005 Ending Balance**	**$ 38,776**	**$ 1,721**
	Prior Period Adjustment	$ (125)	$ (1,721)
	FY2006 Beginning Balance	$ 38,651	$ -
	Net Transactions	$ 4,381	$ 1,303
168	**FY2006 Ending Balance**	**$ 43,032**	**$ 1,303**
	Prior Period Adjustment	$ -	$ (1,303)
	FY2007 Beginning Balance	$ 43,032	$ -
	Net Transactions	$ 7,562	$ 4,866
168	**FY2007 Ending Balance**	**$ 50,594***	**$ 4,866**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities related to the pension plans and for other post employment benefits, such as health care.

Alaska Comptroller's website:
http://fin.admin.state.ak.us/dof/main/index.jsp
Alaska's Comprehensive Annual Financial Reports can be found at:
http://fin.admin.state.ak.us/dof/financial_reports/cafr_toc.jsp

ARIZONA

Grand Canyon Photo by Mark Lellouch, U.S. National Park Service

Arizona is required to pass a "balanced budget". Article IX, Section 3 of the 1912 Constitution requires the legislature to initiate an annual tax to pay for any state debt within twenty-five years of the passage of the law creating that debt. Moreover, Section 5 sets the debt limit at $350,000, and Section 17 sets a spending cap for appropriations at 7% of the total state personal income. It also authorizes the legislature to override the cap by 2/3 vote. Arizona law does not forbid the carrying over of a deficit from one year to the next.

The State maintains three individual major governmental funds: the General Fund; Transportation & Aviation Planning, Highway Maintenance & Safety Fund; and the Land Endowments Fund. The State prepares its operating budget on the cash basis of accounting and budgets two of the major funds the General Fund and; the Transportation & Aviation Planning, Highway Maintenance & Safety Fund; along with Non-major Special Revenue Funds. Regardless of how many funds are budgeted, Arizona does not budget revenues for any of them.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 9,264	$ -
	Net Transactions	$ 639	$ (17,797)
175	**FY2005 Ending Balance**	**$ 9,903**	**$ (17,797)**
	Prior Period Adjustment	$ (29)	$ 17,797
	FY2006 Beginning Balance	$ 9,874	$ -
	Net Transactions	$ 727	$ (18,112)
175	**FY2006 Ending Balance**	**$ 10,601**	**$ (18,112)**
	Prior Period Adjustment	$ (46)	$ 18,112
	FY2007 Beginning Balance	$ 10,555	$ -
	Net Transactions	$ 686	$ (16,603)
174	**FY2007 Ending Balance**	**$ 11,241***	**$ (16,603)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Arizona Comptroller's website: http://www.gao.state.az.us
Arizona' Comprehensive Annual Financial Reports can be found at:
http://www.gao.state.az.us/financials/

ARKANSAS

Lake Ouachita
Photo by:
Tiffani Sineath
Flickr

Arkansas is required to pass a "balanced budget". Section 19-4-201 of state law mandates that proposed expenditures shall not exceed estimated available resources. But Amendment 20 to 1874 the Constitution does permit the State to incur indebtedness with the consent of a majority of the electorate. As there are no statutory requirements to govern what kinds of assumptions can be made about revenue or expenses, the Arkansas budget will be "unbalanced" in different ways in different years. Arkansas law forbids the carrying over of a deficit from one year to the next.

The State of Arkansas has one governmental fund, which is the General Fund. The State's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with Generally Accepted Accounting Principles (GAAP). Although Arkansas budgets its only major fund, the General Fund, it does not budget revenues for that fund. The State only budgets expenditures.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (5,151)	$ -
	Net Transactions	$ (240)	$ 97
454	**FY2005 Ending Balance**	**$ (5,391)**	**$ 97**
	Prior Period Adjustment	$ 19	$ (97)
	FY2006 Beginning Balance	$ (5,372)	$ -
	Net Transactions	$ 296	$ 16
299	**FY2006 Ending Balance**	**$ (5,076)**	**$ 16**
	Prior Period Adjustment	$ -	$ (16)
	FY2007 Beginning Balance	$ (5,076)	$ -
	Net Transactions	$ 232	$ 204
243	**FY2007 Ending Balance**	**$ (4,844)***	**$ 204**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Comptroller's website:
http://www.arkansas.gov/dfa/index.html
Arizona's Comprehensive Annual Financial Reports can be found at:
http://www.arkansas.gov/dfa/accounting/acc_services_reports.html

CALIFORNIA

Yosemite Falls
U.S. National Park
Service Photo

California is required to pass a "balanced budget". California Code Section 13337.5 of state law prohibits the annual budget act from authorizing expenditures in excess of revenues. In 2004 the Constitution was amended to include language to specifically prevent the presentation of a budget bill that would appropriate from the General Fund more than that Fund would receive in revenues. California law forbids the carrying over of a deficit from one year to the next. The State only budgets for expenditures, not revenues.

The California Constitution limits appropriations to the appropriations limit from the previous year, adjusted for inflation and the change in population. This is commonly called "budgeting for fiscal discipline," and is a way to keep the growth of appropriations from outpacing the growth in revenues from year to year.

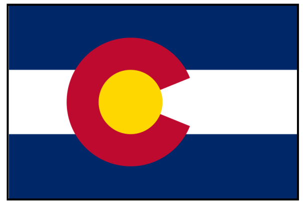
Unfortunately, the most recently passed budget relies heavily on accounting maneuvers, including moving tax receipts from one year to a next and borrowing $5 billion against future lottery earnings. The lottery borrowing requires the approval of voters in a ballot measure in a special election the Spring of 2009. If the lottery plan is defeated, midyear cuts and other measures to rein in spending are likely.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 32,060	$ -
	Net Transactions	$ 2,520	$ (141,907)
295	**FY2005 Ending Balance**	**$ 34,580**	**$ (141,907)**
	FY2006 Beginning Balance	$ 34,551	$ -
	Net Transactions	$ 2,659	$ (152,384)
271	**FY2006 Ending Balance**	**$ 37,210**	**$ (152,384)**
	FY2007 Beginning Balance	$ 36,460	$ -
	Net Transactions	$ (1,083)	$ (168,218)
272	**FY2007 Ending Balance**	**$ 35,377***	**$ (168,218)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

California Comptroller's website:
http://www.sco.ca.gov
California's Comprehensive Annual Financial Reports can be found at:
http://www.sco.ca.gov/ard_state_cafr.html

COLORADO



Great Sand Dunes National Preserve Photo by Patrick Myers, U.S. National Park Service

Colorado is required to pass a "balanced budget". Article X, Section 16 of the 1876 Constitution prevents appropriations from being passed which would exceed tax revenue. Despite this provision, Colorado reported a budget deficit (negative net transactions) for each of the three years studied. Colorado law forbids the carrying over of a deficit from one year to the next.

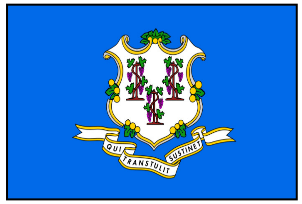
The State maintains five major individual governmental funds: General, Public School, Highway Users Tax, Capital Projects, and State Education. Each year the State budgets on a cash basis and only budgets the General Fund. This is evident from the State's data sheet where there is a significant difference between actual and budgeted figures.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 13,809	$ 104
	Net Transactions	$ 317	$ (79)
182	**FY2005 Ending Balance**	**$ 14,126**	**$ 25**
	Prior Period Adjustment	$ (129)	$ (120)
	FY2006 Beginning Balance	$ 13,997	$ (95)
	Net Transactions	$ 1,087	$ (68)
161	**FY2006 Ending Balance**	**$ 15,084**	**$ (163)**
	Prior Period Adjustment	$ (7)	$ 488
	FY2007 Beginning Balance	$ 15,077	$ 325
	Net Transactions	$ 960	$ (325)
174	**FY2007 Ending Balance**	**$ 16,037***	**$ -**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Colorado Comptroller's website:
http://www.colorado.gov/dpa
Colorado's Comprehensive Annual Financial Reports can be found at:
http://www.colorado.gov/dpa/dfp/sco/CAFR/cafr.htm

CONNECTICUT



Stratford Point Lighthouse Photo by Jeremy D'Entremont, U.S. National Park Srv

Connecticut is required to pass a "balanced budget". Article XXVIII to amend the 1965 Constitution states that the "amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year." Moreover, Section 2-35 of state law requires an estimate of the revenue for each fund from which money is appropriated. The statute then requires that the estimated revenue going into the fund cannot be less than the moneys being appropriated out of the fund. Section 4-72 charges the governor to match revenues with expenditures.

Connecticut law allows the carrying over of a deficit from one year to the next. Connecticut budgets for two years at a time, and then evaluating and adjusting the budget midway through. Connecticut has an Office of Policy and Management, which is responsible for keeping an eye on the State's fiscal health.

Connecticut reports the following major funds: General, Debt Service and Transportation Funds. The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. The State budgets the following funds: General fund, Transportation fund, and Special Revenue funds (which is comprised of 8 lesser funds with no "total" columns). Budgetary Comparison Schedules are missing beginning and ending balances. It is unclear how many of the governmental funds are actually budgeted, but the noticeable difference between budget and actual figures would lead us to believe that not all funds are budgeted.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (5,151)	$ -
	Net Transactions	$ (240)	$ 97
454	**FY2005 Ending Balance**	**$ (5,391)**	**$ 97**
	Prior Period Adjustment	$ 19	$ (97)
	FY2006 Beginning Balance	$ (5,372)	$ -
	Net Transactions	$ 296	$ 16
299	**FY2006 Ending Balance**	**$ (5,076)**	**$ 16**
	Prior Period Adjustment	$ -	$ (16)
	FY2007 Beginning Balance	$ (5,076)	$ -
	Net Transactions	$ 232	$ 204
243	**FY2007 Ending Balance**	**$ (4,844)***	**$ 204**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Connecticut Comptroller's website:
http://www.osc.state.ct.us/
Connecticut's Comprehensive Annual Financial Reports can be found at: http://www.osc.state.ct.us/reports/

DELAWARE

University of Delaware - Newark
Udel-Gore Hall
Wikipedia,
The Free Encyclopedia
Taken by Raul654

Delaware is required to pass a "balanced budget". Article VIII Section 6 of the 1897 Constitution states no appropriation, supplemental appropriation or budget act "shall cause the aggregate General Fund appropriations enacted for any given fiscal year to exceed 98% of the estimated General Fund revenue for such fiscal year from all sources." Sections 6337 and 6339 in Title 29 of the state law mandate that no appropriation can exceed in amount the state revenues from all sources. Delaware law forbids the carrying over of a deficit from one year to the next.

While preparing for revenue shortfalls by leaving some revenues unappropriated has had varying degrees of success, there are no statutory requirements that govern what kinds of assumptions can be made about revenue or expenses. Therefore the Delaware budget could be "unbalanced" in different ways in different years.

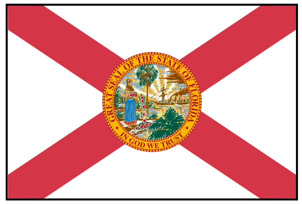
Delaware maintains four individual governmental funds: the General Fund, the Capital Projects Fund, the Federal Fund and the Local School District Fund. The State budgets its financial activities on a cash basis of accounting and records financial transactions in two major categories: General Fund and Special Fund. Based on Delaware's data sheet, budgeted amounts seem relatively in sync with actual amounts, so we will therefore assume that most but not all of Delaware's funds are budgeted.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 2,029	$ 1,000
	Net Transactions	$ 275	$ 119
188	**FY2005 Ending Balance**	**$ 2,304**	**$ 1,119**
	Prior Period Adjustment	$ -	$ (84)
	FY2006 Beginning Balance	$ 2,304	$ 1,035
	Net Transactions	$ 205	$ 219
227	**FY2006 Ending Balance**	**$ 2,509**	**$ 1,254**
	Prior Period Adjustment	$ -	$ (211)
	FY2007 Beginning Balance	$ 2,509	$ 1,043
	Net Transactions	$ 243	$ 169
174	**FY2007 Ending Balance**	**$ 2,752***	**$ 1,212**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Delaware Comptroller's website:
http://accounting.delaware.gov/index.shtml
Delaware's Comprehensive Annual Financial Reports can be found at:
http://accounting.delaware.gov/cafrdefault.shtml

FLORIDA



Space Shuttle Discovery
Photo by NASA—
Kennedy Space Center

Florida is required to pass a "balanced budget". Sections 216.165 and 216.221 of the state law require the governor to recommend revenues sufficient to fund appropriations. Florida law forbids the carrying over of a deficit from one year to the next. Florida's governor is required to monitor revenues to ensure that all the necessary revenues are being raised. If a deficit is developing, then the governor, house speaker, senate president and chief justice are to reduce costs to eliminate the deficit. Florida has one of the most aggressive policies for maintaining a balanced budget in the country, requiring that when the budget isn't balanced, it is to be made balanced. In spite of these laws and policies, Florida reported budget deficits (negative net transactions) for the three years studied.

The State maintains four individual governmental funds: the General Fund, the Environment, Recreation & Conservation Fund, the Health & Family Services Fund, and the Transportation Fund. The State budgets its financial activities on a cash basis of accounting and budgets three major funds: the General fund, the major special revenue fund (comprised of 3 lesser funds), and special revenue fund (comprised of about 19 to 20 lesser funds). On the Budgetary Comparison Schedule neither one of these budget categories include a "Total" column for the lesser funds, which is inefficient for budgetary analysis.

Florida has a dedicated website to the budget, www.peoplesbudget.state.fl.us, which shows the funding for all agencies and the funding source.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 41,225	$ 8,057
	Net Transactions	$ 4,104	$ (677)
223	**FY2005 Ending Balance**	**$ 45,329**	**$ 7,380**
	Prior Period Adjustment	$ 38	$ 3,089
	FY2006 Beginning Balance	$ 45,367	$ 10,469
	Net Transactions	$ 4,890	$ (1,483)
215	**FY2006 Ending Balance**	**$ 50,257**	**$ 8,986**
	Prior Period Adjustment	$ -	$ 4,861
	FY2007 Beginning Balance	$ 50,257	$ 13,847
	Net Transactions	$ 2,249	$ (6,662)
240	**FY2007 Ending Balance**	**$ 52,506***	**$ 7,185**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Florida Comptroller's website:
http://www.myfloridacfo.com
Florida's Comprehensive Annual Financial Reports can be found at:
http://www.myfloridacfo.com/aadir/statewide_financial_reporting/cafr.htm

GEORGIA

Georgia State Capitol Building Wikipedia, The Free Encyclopedia User Autiger

Georgia is required to pass a "balanced budget". Article III, Section 9, Paragraph IV of the Constitution ratified in 1982 prohibits the general assembly from appropriating funds that, in aggregate, exceed the previous year's surplus funds added to the current year's estimated revenue. Any appropriation that violates the balanced budget requirement is supposed to be voided. State law forbids the carrying over of a deficit from one year to the next.

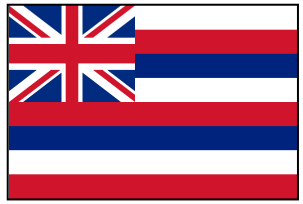
The State budgets several funds which are aggregated into a single one called Budget Fund (the CAFR states that the Budget Fund differs from the funds present in the basic financial statements). Funds included in the Budget Fund are: State General Funds, Brain and Spinal Injury Funds, Lottery Funds, State Motor Fuel Funds, Tobacco Settlement Funds, and various Federal Funds are budgeted. Each year, the State of Georgia prepares a balanced budget in which expected revenues equal expected expenditures. This budget, however, never holds and so the State should put more effort in preparing a realistic budget. The Budgetary Comparison Schedules are missing information such as transfers, net transactions, beginning balances and ending balances.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 14,904	$ -
	Net Transactions	$ (408)	$ -
176	**FY2005 Ending Balance**	**$ 14,496**	**$ -**
	Prior Period Adjustment	$ (1,006)	$ -
	FY2006 Beginning Balance	$ 13,490	$ -
	Net Transactions	$ 944	$ -
196	**FY2006 Ending Balance**	**$ 14,434**	**$ -**
	Prior Period Adjustment	$ (392)	$ -
	FY2007 Beginning Balance	$ 14,042	$ -
	Net Transactions	$ 1,394	$ -
215	**FY2007 Ending Balance**	**$ 15,436***	**$ -**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Georgia Comptroller's website: www.sao.georgia.gov Georgia's Comprehensive Annual Financial Reports can be found at: https://www.audits.state.ga.us/sgd/cafr_main.html

HAWAII



Island Kauai,
Na Pali Coast
By Julius Silver
www.foto-julius.at

Hawaii is required to pass a "balanced budget". Article VII, Section 5 of the Constitution states no expenditures of public money shall exceed the general fund revenues, except when the governor declares an emergency. Moreover, Title 5, Section 37-74(c) of the State law requires the director of finance to reduce appropriated disbursements when collected revenues are less than allotted revenues. Section 37-92 also caps total proposed expenditures to the appropriations from the previous year plus the state growth. This is commonly referred to as "budgeting for fiscal discipline." Even with these laws in place, Hawaii reported budget deficits (negative net transactions) for the three years studied. Hawaii law forbids the carrying over of a deficit from one year to the next.

For FY2007, Hawaii maintained three governmental funds: the General fund, Capital Projects Fund, and Med-Quest Special Revenue Fund. It also maintained other governmental funds which are combined in the non-major governmental funds. Hawaii budgets for the General Fund, the Med-Quest Special Revenue fund and the non-major Special Revenue fund.

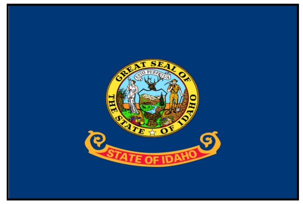
The information on the Budgetary Comparison Schedules is presented efficiently (with inclusion of total columns), but the schedules are missing information such as beginning and ending balances.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 5,922	$ -
	Net Transactions	$ 419	$ (1,253)
214	**FY2005 Ending Balance**	**$ 6,341**	**$ (1,253)**
	Prior Period Adjustment	$ -	$ 1,253
	FY2006 Beginning Balance	$ 6,341	$ -
	Net Transactions	$ (78)	$ (1,678)
258	**FY2006 Ending Balance**	**$ 6,263**	**$ (1,678)**
	Prior Period Adjustment	$ (293)	$ 1,678
	FY2007 Beginning Balance	$ 5,970	$ -
	Net Transactions	$ (225)	$ (1,610)
312	**FY2007 Ending Balance**	**$ 5,745***	**$ (1,610)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Hawaii Comptroller's website:
http://hawaii.gov/dags
Hawaii's Comprehensive Annual Financial Reports can be found at:
http://hawaii.gov/dags/accounting-division/Annual%20Financial%20Report

IDAHO



Crooked Creek
Gospel Hump
Wilderness
U.S. Department
of Agriculture

Idaho is required to pass a "balanced budget". Article 7, Section 11 of the 1890 Constitution, entitled "Expenditure Not Exceed Appropriation," states no appropriation shall be made that exceeds the total revenue, unless the legislature causes for that expenditure to be paid within the fiscal year. Even with this provision in place, Idaho reported budget deficits in two of the three years studied. As with most states, an exception is given for the need to suppress insurrection, defend the state or assist the nation in time of war. Idaho law forbids the carrying over of a deficit from one year to the next.

Governmental funds include the General fund, special revenue funds, permanent funds and a capital projects fund. The state budgets on a cash basis. The State reports 5 major governmental funds: the General, Health and Welfare, Transportation, Public School Endowment, and Pooled Endowment Funds. Idaho budgets all of the major funds in addition to several non-major funds. From the information presented in the CAFR it seems as though most, if not all, of the governmental funds are budgeted. Although some information is missing from the Budgetary Comparison Schedules (beginning and ending balances), the information is presented efficiently (with inclusion of "Total" columns).

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 5,395	$ -
	Net Transactions	$ 467	$ (68)
182	**FY2005 Ending Balance**	**$ 5,862**	**$ (68)**
	Prior Period Adjustment	$ (95)	$ 68
	FY2006 Beginning Balance	$ 5,767	$ -
	Net Transactions	$ 578	$ (45)
161	**FY2006 Ending Balance**	**$ 6,345**	**$ (45)**
	Prior Period Adjustment	$ 62	$ 45
	FY2007 Beginning Balance	$ 6,407	$ -
	Net Transactions	$ 751	$ 69
160	**FY2007 Ending Balance**	**$ 7,158***	**$ 69**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Idaho Comptroller's website: http://www.sco.idaho.gov/
Idaho's Comprehensive Annual Financial Reports can be found at:
http://www.sco.idaho.gov/web/DSADoc.nsf/financial_reports_archive?OpenPage

ILLINOIS

Springfield Capitol Building
Photo by J. Wadas
Wikipedia,
The Free Encyclopedia

Illinois is required to pass a "balanced budget". Article VIII, Section 2 of the 1970 Constitution requires the general assembly to make appropriations for all expenditures of public funds, with appropriations for a fiscal year not exceeding funds estimated by the general assembly to be available for that fiscal year. Illinois law does not forbid the carrying over of a deficit from one year to the next.

Illinois has capped spending when expenditures exceed revenues the previous year. If the budget falls short on revenue by 4% or more, than the next year's budget can only spend 99% of the estimated revenue. If it is 4% short 2 years in a row, the cap is set at 98%. Despite these balanced budget requirements Illinois report more than $4 billion deficits (negative net transactions) for each of the three years studied.

There are no statutory requirements that govern what kinds of assumptions can be made about revenue or expenses. Therefore the Illinois budget is "unbalanced" in different ways in different years.

The State maintains four major governmental funds: the General Fund, Road Fund, Motor Fuel Tax Fund and State Construction account. The State budgets on a cash basis with some modifications as described in the notes to the CAFR's Required Supplementary Information. Most State funds are budgeted, but only six funds are included in the balanced budget requirement.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (15,410)	$ 3,153
	Net Transactions	$ (2,151)	$ (4,410)
351	**FY2005 Ending Balance**	**$ (17,561)**	**$ (1,257)**
	Prior Period Adjustment	$ -	$ 4,337
	FY2006 Beginning Balance	$ (17,561)	$ 3,080
	Net Transactions	$ (769)	$ (4,919)
237	**FY2006 Ending Balance**	**$ (18,330)**	**$ (1,839)**
	Prior Period Adjustment	$ (346)	$ 5,332
	FY2007 Beginning Balance	$ (18,676)	$ 3,493
	Net Transactions	$ (1,726)	$ (5,950)
361	**FY2007 Ending Balance**	**$ (20,402)***	**$ (2,457)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Illinois Comptroller's website:
http://www.ioc.state.il.us/
Illinois' Comprehensive Annual Financial Reports can be found at:
http://www.ioc.state.il.us/Office/ResearchFiscal/Index.cfm?FuseAction=CAFR

INDIANA

Indiana Dunes National Seashore Author: Nwtxqt Wikimedia Commons

Indiana is required to pass a balanced budget in that according to statue "no law shall authorize any debt to be contracted", except for "casual deficits" which must be covered by loans "as may be necessary to meet the demands of the state." Section 4-10-21-2 of the State law does create a state spending cap, but Section 4-10-21-7 allows the general assembly to exempt an appropriation from the State spending cap. Indiana law forbids the carrying over of a deficit from one year to the next.

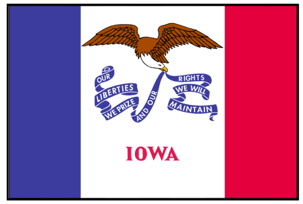
Indiana maintains seven major governmental funds: the General, Motor Vehicle Highway, Medicaid Assistance, Major Moves Construction, State Highway Department, Property Tax Replacement and Tobacco Settlement Funds. The State budgets all seven major funds in addition to over fourteen non-major funds. While all information necessary for analysis can be found in the Budgetary Comparison Schedules, it is not presented in the most efficient manner because there are no "total" columns to accompany the numerous major and non-major funds.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 12,304	$ -
	Net Transactions	$ (212)	$ 8,352
181	**FY2005 Ending Balance**	**$ 12,092**	**$ 8,352**
	Prior Period Adjustment	$ (160)	$ (8,352)
	FY2006 Beginning Balance	$ 11,932	$ -
	Net Transactions	$ 3,995	$ 7,996
181	**FY2006 Ending Balance**	**$ 15,927**	**$ 7,996**
	Prior Period Adjustment	$ 1,465	$ (7,996)
	FY2007 Beginning Balance	$ 17,392	$ -
	Net Transactions	$ 700	$ 8,323
184	**FY2007 Ending Balance**	**$ 18,092***	**$ 8,323**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Indiana Auditor of State's website:
http://www.in.gov/tos/
Indiana's Comprehensive Annual Financial Reports can be found at: http://www.in.gov/auditor/2344.htm

IOWA



Sunrise at Fire Point
by Ken Block
U.S. National
Park Service

Iowa is required to pass a "balanced budget". Section 8.22 of the Iowa Code states the governor must ensure all expenditures equal revenues. Iowa law forbids the carrying over of a deficit from one year to the next. Despite this requirement, the State reported budget deficits (negative net transactions) on its CAFR's Budgetary Comparison Schedules for each of the three years studied.

The State's governmental funds consist of the General fund and non-major governmental funds (special revenue, capital projects, and permanent funds). The State only budgeted the General and special revenue funds. Information within Budgetary Comparison Schedules is efficiently organized and all that is needed for analysis is present.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 6,795	$ 190
	Net Transactions	$ 229	$ (40)
172	**FY2005 Ending Balance**	**$ 7,024**	**$ 150**
	Prior Period Adjustment	$ -	$ 78
	FY2006 Beginning Balance	$ 7,024	$ 228
	Net Transactions	$ 328	$ (50)
173	**FY2006 Ending Balance**	**$ 7,352**	**$ 178**
	Prior Period Adjustment	$ (84)	$ 246
	FY2007 Beginning Balance	$ 7,268	$ 424
	Net Transactions	$ 371	$ (228)
167	**FY2007 Ending Balance**	**$ 7,639***	**$ 196**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Iowa Comptroller's website:
http://das.iowa.gov/index.html
Iowa's Comprehensive Annual Financial Reports can be found at:
http://das.sae.iowa.gov/financial_reports/index.html

KANSAS

Kansas Capitol Building in Topeka Wikipedia, The Free Encyclopedia Author: TheWhitePelican

Kansas is required to pass a "balanced budget". Section 75-3722 of the state law requires the "secretary of administration, on advice of the director of the budget, must assure that expenditures for any particular fiscal year will not exceed the available resources of the general fund or any special revenue fund for that fiscal year." Kansas law forbids the carrying over of a deficit from one year to the next.

The State has five major governmental funds: the General Fund, the Transportation Fund, the Transportation-Capital Projects Fund, the Health Policy Authority Fund, and the Social and Rehabilitation Fund. Annual budgets are adopted on a cash basis with encumbrance modifications for all governmental funds. All major funds are budgeted except for the Transportation-Capital Projects Fund.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 8,829	$ 328
	Net Transactions	$ 458	$ 132
183	**FY2005 Ending Balance**	**$ 9,287**	**$ 460**
	Prior Period Adjustment	$ (22)	$ 21
	FY2006 Beginning Balance	$ 9,265	$ 481
	Net Transactions	$ 286	$ 289
182	**FY2006 Ending Balance**	**$ 9,551**	**$ 770**
	Prior Period Adjustment	$ (59)	$ (60)
	FY2007 Beginning Balance	$ 9,492	$ 710
	FY2007 Net Transactions	$ 473	$ 537
184	**FY2007 Ending Balance**	**$ 9,965***	**$ 1,247**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Kansas Comptroller's website:
http://www.da.ks.gov/
Kansas' Comprehensive Annual Financial Reports can be found at:
http://www.da.ks.gov/ar/finrept/default.htm

KENTUCKY

Natural stone bridge at Natural Bridge State Park by Dennis Adams, Fed. Highway Administration

Kentucky is required to pass a "balanced budget". Section 171 of State law mandates that for each fiscal year the legislature provide revenue to meet the estimated expenses. Kentucky law forbids the carrying over of a deficit from one year to the next.

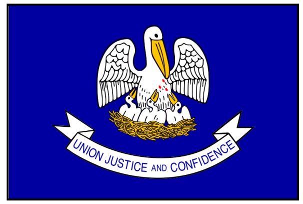
Kentucky consists of the following governmental funds: the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, the Capital Projects Fund, and the non-major funds (comprised of 5 lesser funds). Budgets are prepared principally on a cash basis and all of the major governmental funds are budgeted except for the Capital Projects Fund. Non-major funds are not budgeted. Six of the ten governmental funds are not budgeted, which is evident from the Kentucky data sheet where actual figures are far from being in sync with budgeted figures. Information necessary for analysis is not all present within Budgetary Comparison Schedules: beginning and ending balances are missing.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 16,600	$ -
	Net Transactions	$ 850	$ (11,182)
175	**FY2005 Ending Balance**	**$ 17,450**	**$(11,182)**
	Prior Period Adjustment	$ (62)	$ 11,182
	FY2006 Beginning Balance	$ 17,388	$ -
	Net Transactions	$ 431	$(11,340)
172	**FY2006 Ending Balance**	**$ 17,819**	**$(11,340)**
	Prior Period Adjustment	$ 24	$ 11,340
	FY2007 Beginning Balance	$ 17,843	$ -
	Net Transactions	$ (466)	$(13,074)
171	**FY2007 Ending Balance**	**$ 17,377***	**$(13,074)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Kentucky Comptroller's website:
http://finance.ky.gov/ourcabinet/caboff/OOC/
Kentucky's Comprehensive Annual Financial Reports can be found at:
http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/cafr.htm

LOUISIANA



Kenta Canal at Barataria Preserve Photo by Jan Kronsell Wikipedia, The Free Encyclopedia

Louisiana is required to pass a "balanced budget". Article VII, Section 10 of the Constitution ratified in 1974 states appropriations by the legislature from the State general fund and dedicated funds for any fiscal year shall not exceed the official forecast in effect at the time the appropriations are made. Moreover, the legislature must "establish a procedure to determine if appropriations will exceed the official forecast and an adequate method for adjusting appropriations in order to eliminate a projected deficit." Finally, if a deficit exists at the end of the fiscal year, the legislature has until the end of the next fiscal year to eliminate the deficit. Accordingly, law forbids the carrying over of a deficit from one year to the next.

The Louisiana Constitution limits appropriations to the appropriations limit from the previous year, adjusted for inflation and the change in population. This is commonly called "budgeting for fiscal discipline," and is a way to keep the growth of appropriations from outpacing the growth in revenues from year to year.

Despite these limits and the Constitution's requirement that legislature should eliminate deficits, the Budgetary Comparison Schedules reported budget deficits (negative net transactions) for each of the three years studied.

The major governmental funds are the General Fund, the Bond Security and Redemption Fund, and the Louisiana Education Quality Trust Fund. The non-major governmental funds are also known as special revenue funds. All of the major funds are budgeted including some Special Revenue funds (non-major). Therefore, most but not all funds are budgeted. The information necessary for analysis is not all present within Budgetary Comparison Schedules: beginning and ending balances are missing.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 12,206	$ -
	Net Transactions	$ 1,153	$ (490)
272	**FY2005 Ending Balance**	**$ 13,359**	**$ (490)**
	Prior Period Adjustment	$ 5	$ 490
	FY2006 Beginning Balance	$ 13,364	$ -
	Net Transactions	$ 1,469	$ (291)
184	**FY2006 Ending Balance**	**$ 14,833**	**$ (291)**
	Prior Period Adjustment	$ 6	$ 291
	FY2007 Beginning Balance	$ 14,839	$ -
	Net Transactions	$ 2,886	$ (1,501)
187	**FY2007 Ending Balance**	**$ 17,725***	**$ (1,501)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Louisiana Comptroller's website:
http://www.doa.louisiana.gov/osrap/index.htm
Louisiana's Comprehensive Annual Financial Reports can be found at:
http://doa.louisiana.gov/osrap/CAFR-2.htm

MAINE

Fort Point Light Station
Wikipedia,
The Free Encyclopedia
Author: Lvklock

Maine is required to pass a "balanced budget". Title 5, Chapter 149, Section 1664 of the State law requires the governor must present a general budget summary that shows the "balanced relations between the total proposed expenditures and the total anticipated revenues." Maine law forbids the carrying over of a deficit from one year to the next.

There are four major individual governmental funds that include: the General Fund, Highway Fund, Federal Fund, and Other Special Revenue Fund. The State's budget is prepared primarily on a cash basis. All four major governmental funds are budgeted. However, none of the non-major governmental funds are budgeted.

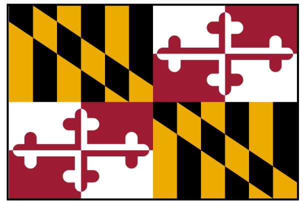
In 2003, the Maine governor created a budget balancing tool to allow citizens to become more familiar with budget process and even submit their own budget proposals. Maine has brought about more accountability to the budget process, resulting in more transparency.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 2,977	$ -
	Net Transactions	$ 203	$ 317
184	**FY2005 Ending Balance**	**$ 3,180**	**$ 317**
	Prior Period Adjustment	$ 28	$ (317)
	FY2006 Beginning Balance	$ 3,208	$ -
	Net Transactions	$ 245	$ 2,394
250	**FY2006 Ending Balance**	**$ 3,453**	**$ 2,394**
	Prior Period Adjustment	$ (10)	$ (2,394)
	FY2007 Beginning Balance	$ 3,443	$ -
	Net Transactions	$ 325	$ (23)
172	**FY2007 Ending Balance**	**$ 3,768***	**$ (23)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Maine Comptroller's website:
http://maine.gov/osc/index.htm
Maine's Comprehensive Annual Financial Reports can be found at:
http://maine.gov/osc/finanrept/cafr.htm

MARYLAND



Baltimore City Hall
Wikipedia,
The Free Encyclopedia
Author: Marylandstater

Maryland is required to pass a "balanced budget". According Article III, Section 52 of the 1867 Constitution, in the budget the governor submits, the balance for total appropriations shall not exceed the balance of total revenues. Neither the governor nor the general assembly shall cause the total appropriations to exceed total revenues. Maryland law forbids the carrying over of a deficit from one year to the next. Even with these requirements, the State reported budget deficits (negative net transactions) on the CAFR's Budgetary Comparison Schedule for each of the years reviewed.

The State maintains five governmental funds: (major) the General Fund and the Department of Transportation—Special Revenue Fund, and (non-major, which are combined for reporting purposes) the debt service fund, the debt service fund for transportation revenue bonds and the capital projects fund. Maryland budgets on a cash basis. Funds that are budgeted include: the General, Special Revenue, and Federal funds. Most, but not all funds, are budgeted.

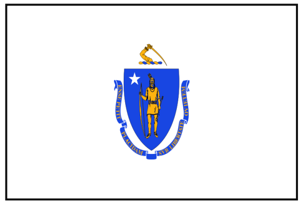
There are no statutory requirements that govern what kinds of assumptions can be made about revenue or expenses, and so the Maryland budget may be "unbalanced" in different ways in different years.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 11,005	$ 421
	Net Transactions	$ 1,413	$ (1,619)
158	**FY2005 Ending Balance**	**$ 12,418**	**$ (1,198)**
	Prior Period Adjustment	$ -	$ -
	FY2006 Beginning Balance	$ 12,418	$ (1,198)
	Net Transactions	$ 1,278	$ (1,432)
153	**FY2006 Ending Balance**	**$ 13,696**	**$ (2,630)**
	Prior Period Adjustment	$ -	$ -
	FY2007 Beginning Balance	$ 13,696	$ (2,630)
	Net Transactions	$ (313)	$ (2,158)
163	**FY2007 Ending Balance**	**$ 13,383***	**$ (4,788)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Maryland Comptroller's website:
http://www.marylandtaxes.com/
Maryland's Comprehensive Annual Financial Reports can be found at:
http://www.marylandtaxes.com/publications/fiscalrprts/listing.asp

MASSACHUSETTS



Coggeshall Park, Fitchburg, Massachusetts Wikipedia, The Free Encyclopedia Author: Marcbela

Massachusetts is required to pass a “balanced budget”. Article 63, Section 2 of the 1780 Constitution addresses the need for the governor to set forth all expenditures and all revenues and other means “by which such expenditures shall be defrayed.” More importantly, Chapter 29, Section 6E of the State law requires the governor to submit, and the general assembly to pass, a general appropriations bill which constitutes a balanced budget. If a deficiency in revenue exists, Chapter 29, Section 9C requires the governor to reduce spending or propose ways to generate additional revenue. Massachusetts law does not forbid the carrying over of a deficit from one year to the next.

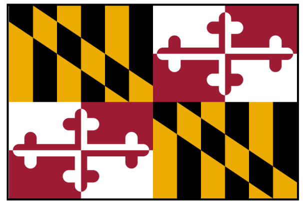
The State maintained four major funds for FY07: General Fund, Highway Fund, Lotteries Fund, and Massachusetts School Building Authority. For FY06 and FY05, the State maintained several additional major funds. Each year, the State’s CAFR includes a single Budgetary Comparison Schedule with no specific title, simply named Budgeted Funds.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (6,342)	$ 1,893
	Net Transactions	$ (5,202)	$ 887
175	**FY2005 Ending Balance**	**$ (11,544)**	**$ 2,780**
	Prior Period Adjustment	$ -	$ (293)
	FY2006 Beginning Balance	$ (11,544)	$ 2,487
	Net Transactions	$ 1,247	$ 515
175	**FY2006 Ending Balance**	**$ (10,297)**	**$ 3,002**
	Prior Period Adjustment	$ 5	$ 206
	FY2007 Beginning Balance	$ (10,292)	$ 3,208
	Net Transactions	$ 695	$ 1,216
177	**FY2007 Ending Balance**	**$ (9,597)***	**$ 4,424**

* The GAAP Basis balance is not an accurate representation the State’s financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Massachusetts Comptroller’s website:
http://www.mass.gov/?pageID=oschomepage&L=1&L0=Home&sid=Aosc
Massachusetts’ Comprehensive Annual Financial Reports can be found at:
http://www.mass.gov/?pageID=oscterminal&L=3&L0=Home&L1=Publications+and+Reports&L2=Financial+Reports&sid=Aosc&b=terminalcontent&f=reports_audits_rpt_cafr&csid=Aosc

MICHIGAN



Upper Falls
Tahquamenon Falls
State Park
Wikipedia,
The Free Encyclopedia
Author: Attila Nagy

Michigan is required to pass a "balanced budget". According Article III, Section 52 of the 1867 Constitution, in the budget the governor submits, the balance for total appropriations shall not exceed the balance of total revenues. Neither the governor nor the general assembly shall cause the total appropriations to exceed total revenues. Michigan law forbids the carrying over of a deficit from one year to the next. Even with these requirements, the State reported budget deficits (negative net transactions) on the CAFR's Budgetary Comparison Schedule for each of the years reviewed.

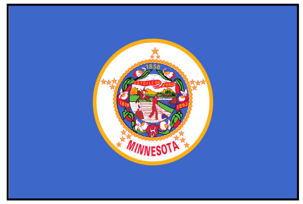
The State maintains five governmental funds: (major) the General Fund and the Department of Transportation—Special Revenue Fund, and (non-major, which are combined for reporting purposes) the debt service fund, the debt service fund for transportation revenue bonds and the capital projects fund. Michigan budgets on a cash basis. Funds that are budgeted include: the General, Special Revenue, and Federal funds. Most, but not all funds, are budgeted.

There are no statutory requirements that govern what kinds of assumptions can be made about revenue or expenses, and so the Michigan budget may be "unbalanced" in different ways in different years.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 16,071	$ 785
	Net Transactions	$ 329	$ (276)
89	**FY2005 Ending Balance**	**$ 16,400**	**$ 509**
	Prior Period Adjustment	$ 188	$ 422
	FY2006 Beginning Balance	$ 16,588	$ 931
	Net Transactions	$ (420)	$ (798)
181	**FY2006 Ending Balance**	**$ 16,168**	**$ 133**
	Prior Period Adjustment	$ -	$ 474
	FY2007 Beginning Balance	$ 16,168	$ 607
	Net Transactions	$ (309)	$ (1,223)
89	**FY2007 Ending Balance**	**$ 15,859***	**$ (616)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

MINNESOTA



Tettegouche State Park
Wikipedia,
The Free Encyclopedia
Author: Desertson67

Minnesota is required to pass a "balanced budget". Section 16A.11, Subdivision 2 of the State law requires the governor to present the biennial budget summary, setting forth the "balanced relation between the total proposed expenditures and the total anticipated income". Section 16A.156 provides the governor and relevant commissioner(s) must reduce expenditures if probable receipts for the general fund will be less than anticipated. Minnesota law forbids the carrying over of a deficit from one year to the next. Such requirements did not prevent the State from reporting budget deficits (negative net transactions) for two of the three years inspected.

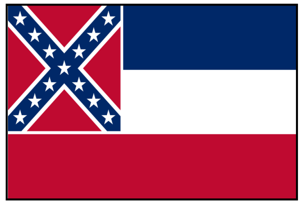
The State maintains 28 (27 for FY05) individual funds, two of which are reported as major: the General Fund and Federal Fund. The only funds budgeted are the General Fund and non-major Special Revenue Funds. This is also evident from the State's annual reports that there are significant differences between actual and budgeted figures.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 6,888	$ 1,629
	Net Transactions	$ 834	$ (381)
141	**FY2005 Ending Balance**	**$ 7,722**	**$ 1,248**
	Prior Period Adjustment	$ (15)	$ 477
	FY2006 Beginning Balance	$ 7,707	$ 1,725
	Net Transactions	$ 1,893	$ (218)
167	**FY2006 Ending Balance**	**$ 9,600**	**$ 1,507**
	Prior Period Adjustment	$ (2)	$ 493
	FY2007 Beginning Balance	$ 9,598	$ 2,000
	Net Transactions	$ 1,205	$ 228
160	**FY2007 Ending Balance**	**$ 10,803***	**$ 2,228**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Minnesota Comptroller's website:
http://www.doer.state.mn.us/
Minnesota's Comprehensive Annual Financial Reports can be found at:
http://www.mmb.state.mn.us/fin/acct

MISSISSIPPI



Mississippi State Capitol building Jackson by Shawn Lea Flickr.com

Mississippi is required to pass a "balanced budget". Title 27-103-113 of the State law requires the Legislative Budget Office to prepare an overall balanced budget of the entire expenses and income of the state for each fiscal year. Section 125 states the total proposed expenditures shall not exceed the amount of estimated revenues. The governor and the Joint Legislative Budget Committee adopt the estimate of the general fund revenue. Mississippi law forbids the carrying over of a deficit from one year to the next.

Mississippi has set an expenditures cap, which allows appropriations only up to 98% of the estimated revenue.

In the FY2007 CAFR Budgetary Comparison Schedule the State reports the following governmental fund types: the General Fund, the Health Care Fund, the Capital Projects Fund, Special Revenue Funds, and Permanent Funds. Prior to FY07, it also reported a Debt Service Fund. In FY07, all transactions previously reported in Debt Service Funds are reported in the General Fund. The State budgets on a cash basis plus encumbrances and established three budgetary fund groups: General Fund, Education Enhancement Fund, and the Special Fund. It is unclear how many of the governmental funds are actually budgeted.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 8,270	$ 3
	Net Transactions	$ 285	$ 89
173	**FY2005 Ending Balance**	**$ 8,555**	**$ 92**
	Prior Period Adjustment	$ (33)	$ (39)
	FY2006 Beginning Balance	$ 8,522	$ 53
	Net Transactions	$ 948	$ 75
203	**FY2006 Ending Balance**	**$ 9,470**	**$ 128**
	Prior Period Adjustment	$ -	$ (92)
	FY2007 Beginning Balance	$ 9,470	$ 36
	Net Transactions	$ 1,300	$ 334
244	**FY2007 Ending Balance**	**$10,770***	**$ 370**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Mississippi Comptroller's website:
http://www.dfa.state.ms.us/
Mississippi's Comprehensive Annual Financial Reports can be found at:
http://www.dfa.state.ms.us/Offices/OFM/BFR.htm

MISSOURI

The Old Courthouse from Kiener Plaza U.S. National Park Service Photo

Missouri is required to pass a "balanced budget". Article IV, Section 24 of the revised 1974 Constitution requires the governor to submit the estimated available revenues of the State and a complete plan of proposed expenditures. Section 27 allows the governor to reduce expenditures when the actual revenues are less than the revenue estimates. Missouri law forbids the carrying over of a deficit from one year to the next. Despite these requirements, Missouri's Budgetary Comparison Schedules reported deficits (negative net transactions) for two of the three years studied.

Major funds include general, public education, conservation and environmental protection, transportation and law enforcement, and the Missouri road fund. All five of the major funds are budgeted in addition to numerous non-major funds. Since actual and budgeted figures (expenditures and revenues) are relatively in sync, we assume that most funds are budgeted. Information within Budgetary Comparison Schedules is efficiently organized, containing "total" columns for the numerous non-major funds.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 27,502	$ 2,467
	Net Transactions	$ (92)	$ (1,456)
204	**FY2005 Ending Balance**	**$ 27,410**	**$ 1,011**
	Prior Period Adjustment	$ 90	$ 1,086
	FY2006 Beginning Balance	$ 27,500	$ 2,097
	Net Transactions	$ 487	$ (801)
215	**FY2006 Ending Balance**	**$ 27,987**	**$ 1,296**
	Prior Period Adjustment	$ 225	$ 1,025
	FY2007 Beginning Balance	$ 28,212	$ 2,321
	Net Transactions	$ 419	$ 880
243	**FY2007 Ending Balance**	**$ 28,631***	**$ 3,201**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Missouri Comptroller's website:
http://dor.mo.gov/
Missouri's Comprehensive Annual Financial Reports can be found at:
http://oa.mo.gov/acct/cafr.htm

MONTANA

Chief Mountain
Glacier National Park
U.S. National
Park Service Photo

Montana is required to pass a "balanced budget". Article VIII, Section 9 of the 1972 Constitution states that appropriations by the legislature shall not exceed anticipated revenue. Montana law forbids the carrying over of a deficit from one year to the next. The governor of Montana is required by statute to reduce spending if a deficit begins to develop. Even with this law, Montana report budget deficits (negative net transactions) on its Budgetary Comparison Schedules for all of the years reviewed.

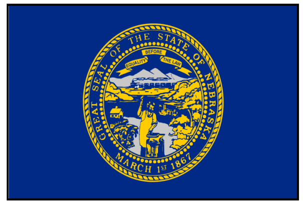
Budgetary data is easy to locate and is presented in a consistent manner for the past three years. The State has five governmental funds that are considered major funds for presentation purposes and they are: the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund. Three out of these five major funds are budgeted, the General Fund, the State Special Revenue Fund and the Federal Special Revenue Fund. Therefore, most but not all funds are budgeted. All the information needed for analysis is presented in an efficient manner within the Budgetary Comparison Schedules.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 4,450	$ 49
	Net Transactions	$ 642	$ (238)
169	**FY2005 Ending Balance**	**$ 5,092**	**$ (189)**
	Prior Period Adjustment	$ 4	$ 428
	FY2006 Beginning Balance	$ 5,096	$ 239
	Net Transactions	$ 596	$ (236)
174	**FY2006 Ending Balance**	**$ 5,692**	**$ 3**
	Prior Period Adjustment	$ (241)	$ 352
	FY2007 Beginning Balance	$ 5,451	$ 355
	Net Transactions	$ 687	$ (440)
174	**FY2007 Ending Balance**	**$ 6,138***	**$ (85)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Montana Comptroller's website:
http://afsd.mt.gov/
Montana's Comprehensive Annual Financial Reports can be found at:
http://afsd.mt.gov/cafr/cafr.asp

NEBRASKA



Saddle Rock
Bluff National Monument
by Matthew Trump
Wikipedia,
The Free Encyclopedia

Nebraska's "balanced budget" requirement comes in the form of a limit the issuance of debt. Article 13, Section 1 of the 1875 Constitution says the State may not contract debts greater than $100,000. Nebraska law forbids the carrying over of a deficit from one year to the next. In spite of this law, budget deficits (negative net transactions) were reported on the State's Budgetary Comparison Schedules within the last three years' annual reports.

The State of Nebraska's governmental funds include five major funds: the General Fund, the Highway Fund, the Federal Fund, the Health and Social Services Fund and the Permanent School Fund. Non-major special revenue, capital project and other permanent funds are also included in the governmental funds.

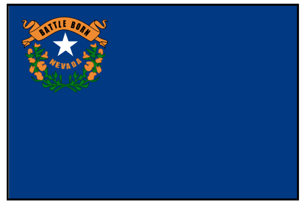
The cash basis of accounting is used for all budgetary fund types. Funds that are budgeted are: General fund, Cash funds, Construction funds, Federal funds, and Revolving funds. The General Fund is the only major fund that corresponds to a budgetary fund type, so the General Fund is the only major fund that has a budget. There are non-major funds that are also budgeted.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 8,457	$ 1,071
	FY2005 Net Transactions	$ 557	$ (642)
175	**FY2005 Ending Balance**	**$ 9,014**	**$ 429**
	Prior Period Adjustment	$ -	$ 1,006
	FY2006 Beginning Balance	$ 9,014	$ 1,435
	Net Transactions	$ 503	$ (1,155)
175	**FY2006 Ending Balance**	**$ 9,517**	**$ 280**
	Prior Period Adjustment	$ -	$ 1,420
	FY2007 Beginning Balance	$ 9,517	$ 1,700
	Net Transactions	$ 641	$ (1,563)
181	**FY2007 Ending Balance**	**$ 10,158***	**$ 137**

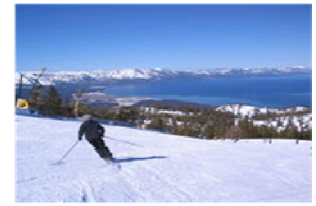
* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Nebraska Comptroller's website:
http://www.das.state.ne.us/accounting/index.html
Nebraska's Comprehensive Annual Financial Reports can be found at:
http://www.das.state.ne.us/accounting/cafr/cafrcon.htm

NEVADA



Skiing with a view of Lake Tahoe Wikipedia, The Free Encyclopedia



Nevada is required to pass a "balanced budget". Section 353.205 of the State law requires the budget document to start with a general summary of the proposed budget setting forth the "aggregate figures of that budget to show the balanced relations between the total proposed expenditures and the total anticipated revenues, together with the other means of financing the proposed budget for the next 2 fiscal years, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress." Even though this provision exists the State reported budget deficits (negative net transactions) on its Budgetary Comparison Schedules for each of the three years examined. Nevada law forbids the carrying over of a deficit from one year to the next.

Nevada also caps the total appropriations to the total appropriations from 1974, adjusted for inflation and population growth. This is commonly referred to as budgeting for fiscal discipline.

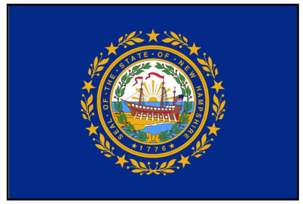
The State reports the following major governmental funds: the General Fund, the State Highway Fund, the Municipal Bond Bank Fund, the Consolidated Bond Interest and Redemption Fund, and the Stabilize the Operations of State Government Fund. Nevada budgets four of the five major funds and several (around 14 each year) non-major governmental funds. Although "total" columns do accompany the numerous non-major funds, budgetary information is presented inefficiently because it is located in two places within the CAFR. By placing funds in this arrangement, readers may not realize that they are seeing the same information twice, once in the "Required Supplementary Information" section and again in the "Other Required Supplementary Information" section. Also, budgetary information for major funds is presented differently than non-major information, which can make it more difficult to collect the necessary data.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 3,824	$ 1,010
	Net Transactions	$ 401	$ (438)
169	**FY2005 Ending Balance**	**$ 4,225**	**$ 572**
	Prior Period Adjustment	$ -	$ 863
	FY2006 Beginning Balance	$ 4,225	$ 1,435
	Net Transactions	$ 401	$ (764)
168	**FY2006 Ending Balance**	**$ 4,626**	**$ 671**
	Prior Period Adjustment	$ -	$ 839
	FY2007 Beginning Balance	$ 4,626	$ 1,510
	Net Transactions	$ 97	$ (849)
167	**FY2007 Ending Balance**	**$ 4,723***	**$ 661**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Nevada Controller's website: www.controller.nv.gov
Nevada's Comprehensive Annual Financial Reports can be found at:
http://controller.nv.gov/CAFR_Download_Page.htm

NEW HAMPSHIRE



Covered bridge in Franconia Notch State Park Wikipedia, The Free Encyclopedia User: Tryptophan

New Hampshire is required to pass a "balanced budget". Section 9:3 of the State law requires the governor to provide estimated revenue for all recommended appropriations. New Hampshire law forbids the carrying over of a deficit from one year to the next.

A review of the State's Budgetary Comparison Schedules within its annual reports reveals budget deficits (negative net transactions) for the last three years.

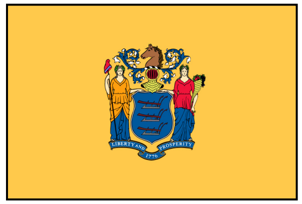
The State maintains three individual major funds, the General, Highway, and Education Trust Funds, and a certain number of non-major governmental funds. All three major funds are budgeted in addition to one individual non-major fund.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 1,807	$ 466
	Net Transactions	$ 188	$ (454)
264	**FY2005 Ending Balance**	**$ 1,995**	**$ 12**
	Prior Period Adjustment	$ -	$ 521
	FY2006 Beginning Balance	$ 1,995	$ 533
	Net Transactions	$ 158	$ (399)
266	**FY2006 Ending Balance**	**$ 2,153**	**$ 134**
	Prior Period Adjustment	$ -	$ 414
	FY2007 Beginning Balance	$ 2,153	$ 548
	Net Transactions	$ 229	$ (436)
167	**FY2007 Ending Balance**	**$ 2,382***	**$ 112**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

New Hampshire Comptroller's website:
http://admin.state.nh.us/accounting/
New Hampshire's Comprehensive Annual Financial Reports can be found at:
http://admin.state.nh.us/accounting/reports.asp

NEW JERSEY



East Point Light, near Heislerville by Dual Freq Wikipedia, The Free Encyclopedia

New Jersey is required to pass a "balanced budget". Article VIII, Section II, paragraph 2 of the 1947 Constitution states "no general appropriation law or other law appropriating money for any State purpose shall be enacted if the appropriation contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of revenue on hand and anticipated which will be available to meet such appropriations during such fiscal period, as certified by the Governor". New Jersey's Budgetary Comparison Schedules within its annual reports showed budget deficits (negative net transactions) for each of the years studied.

The governor is allowed to block the distribution of appropriations to State agencies when the distribution is not in the State's best interest. New Jersey law also permits deficits to be carried over from one year to the next.

The State maintains two major funds: the General Fund and the Property Tax Relief Fund. The State budgets both of its major funds and several non-major funds. The annual reports' Budgetary Comparison Schedules are presented in a consistent manner and easy to locate. These schedules also present all the necessary information efficiently and include "total" columns for non-major funds.

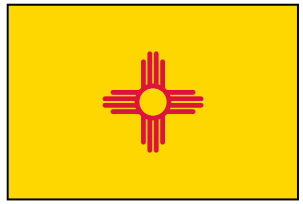
The New Jersey governor has highlighted a $600 million reduction in the State debt, reductions in the cost and size of government and no legislative "add-ons," a constitutional amendment to require voter approval of state debt, and the establishment of a Long Term Obligation and Capital Expenditure Fund. Moreover, the governor signed an executive order to require recurring revenue match recurring spending in future proposed budgets.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (4,389)	$ 539
	Net Transactions	$ (3,456)	$ (427)
183	**FY2005 Ending Balance**	**$ (7,845)**	**$ 112**
	Prior Period Adjustment	$ 228	$ 243
	FY2006 Beginning Balance	$ (7,617)	$ 355
	Net Transactions	$ (528)	$ (43)
210	**FY2006 Ending Balance**	**$ (8,145)**	**$ 312**
	Prior Period Adjustment	$ (166)	$ 713
	FY2007 Beginning Balance	$ (8,311)	$ 1,025
	Net Transactions	$ (445)	$ (213)
244	**FY2007 Ending Balance**	**$ (8,756)***	**$ 812**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

New Jersey Comptroller's website:
http://www.state.nj.us/comptroller/index.html
New Jersey's Comprehensive Annual Financial Reports can be found at:
http://www.state.nj.us/treasury/omb/publications/archives.shtml

NEW MEXICO



Shiprock
U.S. National
Park Service Photo

New Mexico is required to pass a "balanced budget". Section 6-3-10 of the State law defines the budget as an estimate of State expenditures and proposals for funding them. New Mexico law forbids the carrying over of a deficit from one year to the next.

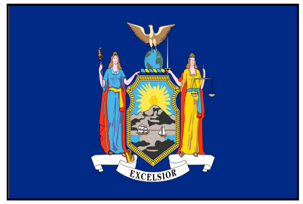
The State maintains 21 individual funds, 6 of which are major funds: the General, Education, Health and Human Services, Highway and Transportation, Severance Tax Permanent, and Land Grant Permanent Funds. The budget is adopted on a modified accrual basis of accounting that is consistent with GAAP. All of the major funds are budgeted except for the Severance Tax Permanent Fund and the Land Grand Permanent Fund. No non-major funds are budgeted. The State's data sheet shows a significant difference between budgeted and actual figures (expenditures and revenues). Budgetary Comparison Schedules are missing beginning and ending balances.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 12,545	$ -
	Net Transactions	$ 189	$ (2)
731	**FY2005 Ending Balance**	**$ 12,734**	**$ (2)**
	Prior Period Adjustment	$ (3)	$ 2
	FY2006 Beginning Balance	$ 12,731	$ -
	Net Transactions	$ 173	$ 666
679	**FY2006 Ending Balance**	**$ 12,904**	**$ 666**
	Prior Period Adjustment	$ (135)	$ (666)
	FY2007 Beginning Balance	$ 13,039	$ -
	Net Transactions	$ 324	$ 159
397	**FY2007 Ending Balance**	**$ 13,363***	**$ 159**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

New Mexico Department of Finance and Administration's website:
http://board.nmdfa.state.nm.us /
New Mexico's Comprehensive Annual Financial Reports can be found at:
http://www.dfafcd.state.nm.us/html/indexcafr.html

NEW YORK



New York State Capitol
Albany
Flickr.com

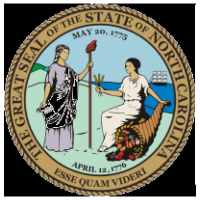
New York is required to pass a "balanced budget". Article 7, Section 2 of the Constitution states the governor must present a budget of all expenditures, and the revenue sources, including new taxes, to meet those expenditures. Section 54 of the State law then charges the legislature to demonstrate its changes to the proposed budget follow Article 7. Despite these provisions, budget deficits (negative net transactions) were reported on the State's Budgetary Comparison Schedules for two of the three years examined. Under New York law, deficits can be carried over from one year to the next.

The State reports three major individual governmental funds: the General Fund, the Major Special Revenue Fund, and the General Obligation Debt Service Fund. All three major funds are budgeted (The General Obligation Debt Service Fund is not budgeted in FY05, but it is also not reported as a governmental fund). Non-major Funds that are budgeted: Special Revenue 3 and "other" out of 10, Debt Service Funds 3 and "other" out of 6 (7 FY05), and 4 and other out of 12 (11 FY06, FY05). Budgetary Comparison Schedules are missing beginning and ending balances.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 39,086	$ -
	Net Transactions	$ 2,104	$ (379)
132	**FY2005 Ending Balance**	**$ 41,190**	**$ (379)**
	Prior Period Adjustment	$ -	$ 379
	FY2006 Beginning Balance	$ 41,190	$ -
	Net Transactions	$ 4,807	$ 981
154	**FY2006 Ending Balance**	**$ 45,997**	**$ 981**
	Prior Period Adjustment	$ -	$ (981)
	FY2007 Beginning Balance	$ 45,997	$ -
	Net Transactions	$ (670)	$ (542)
154	**FY2007 Ending Balance**	**$ 45,327***	**$ (542)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

New York Comptroller's website:
http://www.osc.state.ny.us/
New York's Comprehensive Annual Financial Reports can be found at:
http://www.osc.state.ny.us/finance/



NORTH CAROLINA

Chimney Rock State Park
Wikipedia,
The Free Encyclopedia
User: Jmturner

North Carolina is required to pass a "balanced budget". Article III, Section 5 of the 1971 Constitution states that the total expenditures of the State for the fiscal period covered by the budget shall not exceed the total of receipts during that fiscal period and the surplus remaining in the State Treasury at the beginning of the period. Section 143c-4-1 of the State law further declares that the budget recommended by the Governor and the budget enacted by the General Assembly shall be balanced and shall include two fiscal years beginning on July 1 of each odd-numbered year. Each fiscal year and each fund shall be balanced separately. The budget for a fund is balanced when the beginning unreserved fund balance for the fiscal year, together with the projected receipts to the fund during the fiscal year, is equal to or greater than the sum of appropriations from the fund for that fiscal year. North Carolina law forbids the carrying over of a deficit from one year to the next. North Carolina law requires the Governor to keep a watchful eye on the budget, and to make necessary corrections when deficits begin to develop.

Our study revealed that despite the balance budget requirements mentioned above, North Carolina's Budgetary Comparison Schedules reported three years of budget deficits (negative net transactions).

The State maintains the following individual major funds: the General Fund, the Highway Fund, and the Highway Trust Fund. Information within the CAFR for all other funds is aggregated for presentation purposes. The State budgets on a cash basis and the major governmental fund that is budgeted is the General Fund. This is evident by significant differences between actual and budgeted figures (revenues and expenditures) being reported with the State's CAFRs.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 22,927	$ 289
	Net Transactions	$ 982	$ (289)
161	**FY2005 Ending Balance**	**$ 23,909**	**$ -**
	Prior Period Adjustment	$ 1,063	$ 479
	FY2006 Beginning Balance	$ 24,972	$ 479
	Net Transactions	$ 2,462	$ (365)
164	**FY2006 Ending Balance**	**$ 27,434**	**$ 114**
	Prior Period Adjustment	$ 199	$ 635
	FY2007 Beginning Balance	$ 27,633	$ 749
	Net Transactions	$ 2,211	(748)
160	**FY2007 Ending Balance**	**$ 29,844***	**$ 1**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

North Carolina Comptroller's website:
http://www.ncosc.net/index.html
North Carolina's Comprehensive Annual Financial Reports can be found at:
http://www.ncosc.net/financial/

NORTH DAKOTA

The Shark Fin Rock
Wikipedia,
The Free Encyclopedia
User: Bjr97543

North Dakota is required to pass a "balanced budget". Article X, Section 13 of the Constitution as amended in 1973 restricts any indebtedness that is "not evidenced by a bond issue". North Dakota law forbids the carrying over of a deficit from one year to the next.

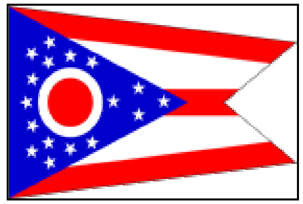
The State has several governmental funds, of which three are considered major individual funds. Those three are the General Fund, the Federal Fund, and the School Permanent Trust Fund. The State budgets on a budgetary basis that differs from those used to present the financial statements in accordance with GAAP. The only major fund with a legally adopted budget is the General Fund. All other funds are budgeted together as "Other Budgeted Funds".

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 2,311	$ 261
	Net Transactions	$ 266	$ 249
210	**FY2005 Ending Balance**	**$ 2,577**	**$ 510**
	Prior Period Adjustment	$ (30)	$ (445)
	FY2006 Beginning Balance	$ 2,547	$ 65
	Net Transactions	$ 351	$ 265
165	**FY2006 Ending Balance**	**$ 2,898**	**$ 330**
	Prior Period Adjustment	$ 5	$ -
	FY2007 Beginning Balance	$ 2,903	$ 330
	Net Transactions	$ 528	$ 266
165	**FY2007 Ending Balance**	**$ 3,431***	**$ 596**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

North Dakota Comptroller's website:
http://www.nd.gov/omb/
North Dakota's Comprehensive Annual Financial Reports can be found at:
http://www.nd.gov/fiscal/CAFRIndex.html

OHIO



Ohio Statehouse in Columbus, Ohio. Photo by Alexander Smith Wikipedia, The Free Encyclopedia

Ohio's "balanced budget" requirements come in the forms of a limit the issuance of debt and an appropriations cap that is tied to the actual revenue raised during previous years. Section 107.33 of the State law creates a cap on appropriations that is the previous year's revenue, adjusted for inflation and population growth, or the previous year's revenue plus 3.5%, whichever is greater. Article 8, Sections 1 and 2 of the 1851 Constitution permit the state to contract debts, to supply casual deficits or failures in revenues, or to meet expenses not otherwise provided for as long as those costs do not exceed $750,000. Title 1, Section 126.05 of the State law requires the director of the budget to notify the governor each month on the status of available revenue receipts and balances. The governor must then prevent expenses of state agencies from exceeding those revenue receipts. Ohio law forbids the carrying over of a deficit from one year to the next.

Even though Ohio has specific balanced budget requirements, the State's Budgetary Comparison Schedules indicated budget deficits (negative net transactions) for the three years studied.

Budgetary information within the Ohio CAFR is presented in a consistent manner all three years and easy to locate. Specific information is also presented efficiently (inclusion of "total" columns). The State's governmental funds include the General Fund and 15 special revenue funds, 23 debt service funds, and 10 capital projects funds. The State budgets on a modified cash basis of accounting. The General Fund, and 11 out of 15 special revenues funds, 9 out of 23 debt service funds, and 9 out of 10 capital projects funds are budgeted. Most but not all funds are budgeted. Revenues are budgeted only for the General Fund. This results in very large gap between actual and budgeted figures.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 17,499	$ -
	Net Transactions	$ 970	$ (28,640)
316	**FY2005 Ending Balance**	**$ 18,469**	**$ (28,640)**
	Prior Period Adjustment	$ (365)	$ 28,640
	FY2006 Beginning Balance	$ 18,104	$ -
	Net Transactions	$ 840	$ (29,747)
266	**FY2006 Ending Balance**	**$ 18,944**	**$ (29,747)**
	Prior Period Adjustment	$ (1)	$ 29,747
	FY2007 Beginning Balance	$ 18,943	$ -
	Net Transactions	$ 587	$ (33,407)
303	**FY2007 Ending Balance**	**$ 19,530***	**$ (33,407)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Ohio Comptroller's website: http://www.obm.ohio.gov/
Ohio's Comprehensive Annual Financial Reports can be found at:
http://obm.ohio.gov/SectionPages/FinancialReporting/CAFR

OKLAHOMA

Bison Pasture
Platt Historic District
U.S. National
Park Service Photo

Oklahoma is required to pass a "balanced budget". 62 Okl. St. § 41.33 requires a budget message outlining the fiscal policy of the State for the biennium and describing the important features of the budget plan. This plan provides a summary of the budget setting forth aggregate figures of proposed revenues and expenditures and the balanced relations between the proposed revenues and expenditures and the total expected income and other means of financing the budget compared with the corresponding figures for the preceding biennium. Additionally, Article 10, Section 23 of the Constitution sets regulations "to ensure a balanced annual budget". The Oklahoma Budgetary Comparison Schedules within its annual report indicated the State ran budget deficits (negative net transactions) for each of the years studied. State law forbids the carrying over of a deficit from one year to the next.

The Oklahoma Constitution limits appropriations to the appropriations limit from the previous year, adjusted for inflation and the change in population. This is commonly called "budgeting for fiscal discipline," and is a way to keep the growth of appropriations from outpacing the growth in revenues from year to year.

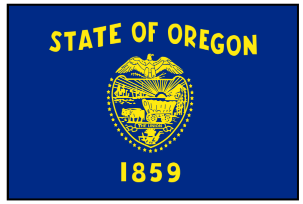
The State has four governmental funds: the General Fund, the Commissioners of the Land Office Permanent Fund, the Department of Wildlife Conservation Permanent Fund, and the Tobacco Settlement Endowment Permanent Fund. The State's annual budget is prepared on the cash basis utilizing encumbrance accounting. Only the General Fund is budgeted. Although information on the Budgetary Comparison Schedules is presented neatly and efficiently, actual and budget figures are hardly in sync since only one fund is budgeted.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 9,444	$ 915
	Net Transactions	$ 697	$ (603)
242	**FY2005 Ending Balance**	**$ 10,141**	**$ 312**
	Prior Period Adjustment	$ (7)	$ 794
	FY2006 Beginning Balance	$ 10,134	$ 1,106
	Net Transactions	$ 1,156	$ (998)
181	**FY2006 Ending Balance**	**$ 11,290**	**$ 108**
	Prior Period Adjustment	$ (39)	$ (108)
	FY2007 Beginning Balance	$ 11,251	$ -
	Net Transactions	$ 903	$ (4,625)
213	**FY2007 Ending Balance**	**$ 12,154***	**$ (4,625)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Oklahoma Comptroller's website:
http://www.ok.gov/OSF/Comptroller/index.html
Oklahoma's Comprehensive Annual Financial Reports can be found at:
http://www.ok.gov/OSF/Comptroller/Financial_Reporting.html

OREGON



Crater Lake and Wizard Island U.S. National Park Service Photo

Oregon is required to pass a "balanced budget". Section 291.216(2) of the State law requires a budget report to set forth the aggregate figures to show a "balanced relation between the total proposed expenditures and the total anticipated income." Section 291.254 then requires State agencies to reduce their expenditures should probable receipts be less than what was anticipated. Article IX, Sections 2 and 6 of the 1859 Constitution allow a tax, for the ensuing year, to pay for a deficiency from the previous fiscal year. Oregon law forbids the carrying over of a deficit from one year to the next.

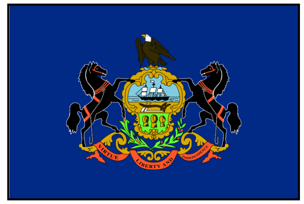
The State maintains 21 individual funds. The State does not budget on Generally Accepted Accounting Principles (GAAP) basis. Budgeted funds include: the General Fund, Federal Funds, Lottery Funds, and Other Funds. We do not know how many funds are included in "Other Funds" and cannot conclude how many are budgeted from information provided by the CAFR.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 10,393	$ -
	Net Transactions	$ (181)	$ (16)
184	**FY2005 Ending Balance**	**$10,212**	**$ (16)**
	Prior Period Adjustment	$ 66	$ 16
	FY2006 Beginning Balance	$ 10,278	$ -
	Net Transactions	$ 761	$ 689
182	**FY2006 Ending Balance**	**$ 11,039**	**$ 689**
	Prior Period Adjustment	$ (43)	$ (689)
	FY2007 Beginning Balance	$ 10,996	$ -
	Net Transactions	$ (123)	$ 689
174	**FY2007 Ending Balance**	**$ 10,873***	**$ 689**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Oregon Comptroller's website:
http://www.oregon.gov/DAS/SCD/index.shtml
Oregon's Comprehensive Annual Financial Reports can be found at:
http://www.oregon.gov/DAS/SCD/SARS/publications.shtml

PENNSYLVANIA



Independence Hall
Philadelphia
Photo by Ronen Perry
Wikipedia,
The Free Encyclopedia

Pennsylvania is required to pass a "balanced budget". Article 8, Section 12 of the 1968 Constitution requires the governor to submit to the general assembly a balanced operating budget, and a financial plan for the next 5 years. Section 13 prohibits the general assembly from passing an operating budget that exceeds actual and estimated revenue. The operating budget is limited to estimated expenses for the executive branch, legislative branch, judicial branch and public schools. Pennsylvania law permits the carrying over of a deficit from one year to the next.

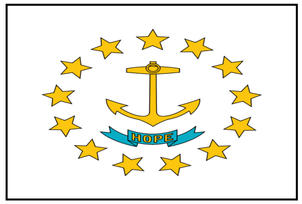
The State maintains the following three major individual funds: the General Fund, the Motor License Fund, and the Tobacco Settlement Fund. Funds are budgeted on budgetary basis that differs from the modified accrual basis of accounting for governmental funds. The following funds are budgeted: the General Fund and Special Revenue Funds (Motor License, Banking Department, Milk Marketing, Workmen's Compensation). All major funds are budgeted except for the Tobacco Settlement Fund. All information necessary for analysis is presented efficiently in the Budgetary Comparison Schedules. These schedules reported budget deficits (negative net transactions), even though the budget is required to be balanced each year.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 19,686	$ 267
	Net Transactions	$ 1,113	$ (50)
176	**FY2005 Ending Balance**	**$ 20,799**	**$ 217**
	Prior Period Adjustment	$ -	$ 442
	FY2006 Beginning Balance	$ 20,799	$ 659
	Net Transactions	$ 1,793	$ (470)
175	**FY2006 Ending Balance**	**$ 22,592**	**$ 189**
	Prior Period Adjustment	$ -	$ 708
	FY2007 Beginning Balance	$ 22,592	$ 897
	Net Transactions	$ 1,805	$ (655)
173	**FY2007 Ending Balance**	**$ 24,397***	**$ 242**

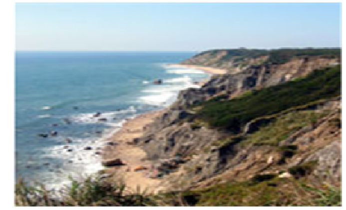
* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Pennsylvania Comptroller's website:
http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4408&mode=2
Pennsylvania's Comprehensive Annual Financial Reports can be found at:
http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&level=1&css=L1&mode=2&in_hi_userid=2&cached=true

RHODE ISLAND



Block Island Bluffs
Flickr.com
User: Whitney



Rhode Island is required to pass a "balanced budget". Section 35-3-13 of the State law mandates that no action on the part of the legislature shall be taken which will cause an excess of appropriations for revenue expenditures over estimated revenue receipts. Section 35-3-16 then requires the governor to maintain a balanced budget when actual revenue receipts will not equal actual expenditures. Rhode Island law forbids the carrying over of a deficit from one year to the next.

To facilitate fiscal discipline, Rhode Island law permits appropriations only up to 98% of estimated revenues. In addition, expenditures can only grow by 5.5% from year to year.

The State maintains three major governmental funds: the General Fund, the Intermodal Surface Transportation Fund, and the Grant Anticipated Revenue Vehicle Fund. Nine (8 for FY2005, FY2006) non-major governmental funds are also maintained. Of the three major funds, the following two are budgeted: the General Fund and Intermodal Surface Transportation Fund. Also budgeted is the Rhode Island Temporary Disability Insurance Fund (a non-major Special Revenue fund). Few governmental funds are actually budgeted, but most of the major funds are budgeted which in turn leads to relatively similar budgeted and actual figures (expenditures and revenues).

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ (16)	$ 130
	Net Transactions	$ 212	$ 57
232	**FY2005 Ending Balance**	**$ 196**	**$ 187**
	Prior Period Adjustment	$ 746	$ (55)
	FY2006 Beginning Balance	$ 942	$ 132
	Net Transactions	$ 89	$ 92
182	**FY2006 Ending Balance**	**$ 1,031**	**$ 224**
	Prior Period Adjustment	$ 1	$ (88)
	FY2007 Beginning Balance	$ 1,032	$ 136
	Net Transactions	$ (49)	$ 105
283	**FY2007 Ending Balance**	**$ 983***	**$ 241**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Rhode Island Controller's website:
http://controller.admin.ri.gov
Rhode Island's Comprehensive Annual Financial Reports can be found at:
http://controller.admin.ri.gov/Financial%20Reports/index.php

SOUTH CAROLINA

Finaly Park Fountain
Downtown Columbia
Wikipedia,
The Free Encyclopedia

South Carolina is required to pass a "balanced budget". Article 10, Section 7(a) of the 1895 Constitution requires a "budget process to insure that annual expenditures of state government may not exceed annual state revenue." In addition, Section 11-11-345 of the State law requires that if the year-end GAAP audit shows a deficit, any appropriation of surplus funds is suspended, and is used to offset the deficit. Regardless of these requirements, the State reported budget deficits (negative net transactions) on its Budgetary Comparison Schedule for the three years reviewed. South Carolina law forbids the carrying over of a deficit from one year to the next.

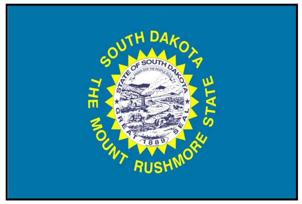
Governmental funds include the General Fund, several (nine plus a tenth aggregated fund) Special Revenue funds, a Capital Projects Fund, and two Permanent funds. State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with some exceptions that are explained in Note 4 to the Required Supplementary Information—Budgetary. As seen in the State's data sheet, budgeted and actual revenues are reasonably in sync. The same cannot be said about expenditures. The State budgets the General Fund and Other Budgeted Funds. The State's CAFR does not reveal what funds are included in "Other Budgeted Funds".

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 10,154	$ 1,262
	Net Transactions	$ 1,287	$ (17)
153	**FY2005 Ending Balance**	**$ 11,441**	**$ 1,245**
	Prior Period Adjustment	$ -	$ 794
	FY2006 Beginning Balance	$ 11,441	$ 2,039
	Net Transactions	$ 1,468	$ (306)
144	**FY2006 Ending Balance**	**$ 12,909**	**$ 1,733**
	Prior Period Adjustment	$ (3)	$ 983
	FY2007 Beginning Balance	$ 12,906	$ 2,716
	Net Transactions	$ 902	$ (702)
138	**FY2007 Ending Balance**	**$ 13,808***	**$ 2,014**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

South Carolina Comptroller's website:
http://www.cg.state.sc.us/
South Carolina's Comprehensive Annual Financial Reports can be found at:
http://www.cg.state.sc.us/

SOUTH DAKOTA



Mount Rushmore
Photo by Jim Bowen
Flickr.com

South Dakota is required to pass a "balanced budget". Section 4-7-10 of the State law requires the budget report to include ways expenditures are supported by revenues. Section 4-8-23 requires the governor to keep expenditures in proportion to revenues throughout the fiscal year, so as not to result in state debt. South Dakota law forbids the carrying over of a deficit from one year to the next. It is difficult to determine if this law is followed, because the State does not budget revenues.

The State maintains several individual governmental funds, of which the major ones are: the General Fund, Transportation Fund, Social Services Federal Fund, Dakota Cement Trust Fund, and Education Enhancement Trust Fund. The budget is prepared principally on a cash basis. Three of the major funds are budgeted: the General Fund, the Transportation Fund, and the Social Services Federal Fund.

CAFR Timeliness	**All Governmental Funds Items *(in millions)***	**GAAP Basis***	**Budgetary Basis**
	FY2005 Beginning Balance	$ 3,627	$ -
	Net Transactions	$ 165	$ (1,916)
232	**FY2005 Ending Balance**	**$ 3,792**	**$ (1,916)**
	Prior Period Adjustment	$ -	$ 1,916
	FY2006 Beginning Balance	$ 3,792	$ -
	Net Transactions	$ 135	$ (2,016)
297	**FY2006 Ending Balance**	**$ 3,927**	**$ (2,016)**
	Prior Period Adjustment	$ 15	$ 2,016
	FY2007 Beginning Balance	$ 3,942	$ -
	Net Transactions	$ 168	$ (2,088)
369	**FY2007 Ending Balance**	**$ 4,110***	**$ (2,088)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

South Dakota Comptroller's website:
http://www.state.sd.us/bfm/
South Dakota's Comprehensive Annual Financial Reports can be found at:
http://www.state.sd.us/bfm/cafr.htm

TENNESSEE

Ramsay Cascades Trail in Greenbrier Smokey Mountains U.S. National Park Service Photo

Tennessee is required to pass a “balanced budget”. Article II, Section 24 of the 1870 Constitution states that for any fiscal year State’s expenditures shall not exceed the State's revenues and reserves, including the proceeds of any debt obligation, for that year. Tennessee law forbids the carrying over of a deficit from one year to the next.

The Tennessee Constitution also provides that in no year shall the rate of growth of appropriations from State tax revenues exceed the estimated rate of growth of the State's economy as determined by law. No appropriation in excess of this limitation shall be made unless the General Assembly shall, by law containing no other subject matter, set forth the dollar amount and the rate by which the limit will be exceeded. Although Tennessee has all of these balance budget provisions, its Budgetary Comparison Schedules reported budget deficits (negative net transactions) for each of the three years reviewed.

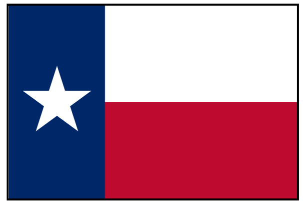
The State maintains the following funds: the General Fund, the Education Fund, 25 Special Revenue funds, a Debt Service Fund, a Capital Projects Fund, and 3 Permanent funds. Budgeted funds include: the General Fund, the Education Fund, and 22 non-major special revenue funds, and the Debt Service Fund. The Capital Projects Fund was not budgeted and neither were any Permanent funds. There is a noticeable difference between budgeted and actual figures (revenues and expenditures) as reported in the State’s annual reports. All information necessary for budgetary analysis was presented efficiently within the Budgetary Comparison Schedules.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 20,279	$ 1,943
	Net Transactions	$ 1,015	$ (895)
173	**FY2005 Ending Balance**	**$ 21,294**	**$ 1,048**
	Prior Period Adjustment	$ (27)	$ 610
	FY2006 Beginning Balance	$ 21,267	$ 1,658
	Net Transactions	$ 1,867	$ (1,352)
174	**FY2006 Ending Balance**	**$ 23,134**	**$ 306**
	Prior Period Adjustment	$ 38	$ 2,738
	FY2007 Beginning Balance	$ 23,172	$ 3,044
	Net Transactions	$ 1,655	$ (1,893)
160	**FY2007 Ending Balance**	**$ 24,827***	**$ 1,151**

* The GAAP Basis balance is not an accurate representation the State’s financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Tennessee Comptroller’s website:
http://state.tn.us/finance/
Tennessee’s Comprehensive Annual Financial Reports can be found at:
http://www.state.tn.us/finance/act/cafr.html

TEXAS



Texas Longhorn cowPhoto by Ed Schipul Flickr.com

Texas is required to pass a "balanced budget". Article II, Section 49 of the 1876 Texas Constitution invalidates an appropriations bill which exceeds the money available in the fund. Article VIII, Section 22(c) states that in "no case shall appropriations exceed revenues." Additionally, the state comptroller is required to provide a report in advance of each regular session detailing the state of the treasury at the close of the last fiscal period, and an itemized list of revenue based on the laws then in effect. Texas law allows the carrying over of a deficit from one year to the next.

Texas caps the rate of appropriations growth to the rate of population growth and inflation. This is commonly referred to as "budgeting for fiscal discipline," and is a way to prevent expenditures from increasing faster than revenue. Texas also has a requirement that the official estimates are to be made by the state comptroller.

The general fund, highway fund and permanent school fund are reported as major governmental funds. The general fund and highway fund are budgeted. The CAFR does not make it clear how many of the non-major governmental funds are budgeted. Based on the significant difference between actual and budgeted figures from the State's data sheet, it is most likely that the State budgets only a few of their governmental funds. Budgetary information within the Budgetary Comparison Schedules is also not presented as efficiently as possible since there are around seven non-major funds each year with no "total" columns to accompany them.

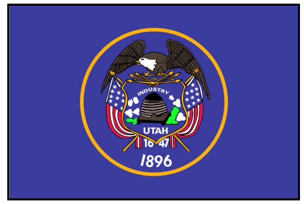
The Texas governor has called for stricter state spending caps, the limiting of all state funds excluding property tax relief, the elimination of budget gimmicks including one-time adjustments, and measures to use funds for their originally-intended purpose.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 74,795	$ -
	Net Transactions	$ 6,882	$ 2,109
181	**FY2005 Ending Balance**	**$ 81,677**	**$ 2,109**
	Prior Period Adjustment	$ 61	$ (2,109)
	FY2006 Beginning Balance	$ 81,738	$ -
	Net Transactions	$ 8,424	$ 3,420
181	**FY2006 Ending Balance**	**$ 90,162**	**$ 3,420**
	Prior Period Adjustment	$ (35)	$ (3,420)
	FY2007 Beginning Balance	$ 90,127	$ -
	FY2007 Net Transactions	$ 8,223	$ 6,960
182	**FY2007 Ending Balance**	**$ 98,350***	**$ 6,960**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Texas Comptroller's website:
http://www.window.state.tx.us/
Texas' Comprehensive Annual Financial Reports can be found at:
https://fmx.cpa.state.tx.us/fm/pubs/cafr/index.php

UTAH



Chesler Park in Canyonlands U.S. National Park Service Photo

Utah is required to pass a "balanced budget". Article 13, Section 9 of the 1895 Constitution states that expenditures shall not exceed total revenues. Section 63-38-10(3) requires the governor to reduce the budgetary allotments and transfer of funds by the amount of the revenue deficiency. These provisions did not prevent the State from reporting budget deficits (negative net transactions) on the last three years' Budgetary Comparison Schedules. Utah law also forbids the carrying over of a deficit from one year to the next.

For FY2007, the State maintains the following funds: the General Fund, the Education Fund, the Uniform School Fund, the Transportation Fund, the Transportation Investment Fund, and the Trust Lands Fund. The State also maintains a number of non-major governmental funds, but the exact amount is unclear. For FY2006, the state maintains all of the previously named governmental funds except for the Education Fund. For FY2005, the State maintains the following funds: the General Fund, the Uniform School Fund, Transportation Fund, the Centennial Highway Fund, and the Trust Lands Fund.

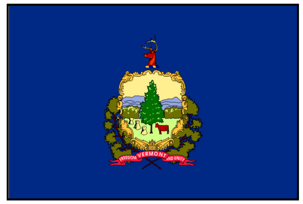
Each year, Utah budgets all of its major governmental funds, except for the Trust Lands Fund. Utah's CAFR also contains detail schedule of expenditures for all of its budgetary funds. In other states this has lead to confusion and the double counting of information. However, Utah's detail schedules are labeled clearly.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 9,588	$ 872
	Net Transactions	$ 818	$ (150)
137	**FY2005 Ending Balance**	**$ 10,406**	**$ 722**
	Prior Period Adjustment	$ -	$ 309
	FY2006 Beginning Balance	$ 10,406	$ 1,031
	Net Transactions	$ 1,549	$ 124
136	**FY2006 Ending Balance**	**$ 11,955**	**$ 1,155**
	Prior Period Adjustment	$ -	$ 531
	FY2007 Beginning Balance	$ 11,955	$ 1,686
	Net Transactions	$ 1,718	$ (356)
143	**FY2007 Ending Balance**	**$ 13,673***	**$ 1,330**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Utah Comptroller's website:
http://www.finance.utah.gov/main/
Utah's Comprehensive Annual Financial Reports can be found at:
http://finance.utah.gov/reporting/cafr.html

VERMONT



Eureka School House in Springfield Wikipedia, The Free Encyclopedia User: H0n0r

No "balanced budget" requirement was found for the state of Vermont. However, Chapter 5, Section 308 of the State law creates a "budget stabilization trust fund" to offset any fund deficits for that fiscal year. Vermont law permits the carrying over of a deficit from one year to the next.

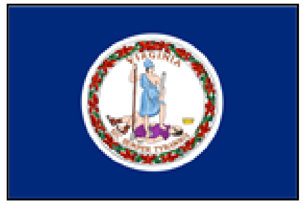
The State reports eighteen governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. The State began reporting the Global Commitment Fund in FY06. Prior to this, it only reported seventeen governmental funds. Each year, Vermont budgets all of its major governmental funds which is evident from the minor difference between actual and budgeted figures (revenues and expenditures).

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 1,056	$ 289
	Net Transactions	$ 42	$ (95)
182	**FY2005 Ending Balance**	**$ 1,098**	**$ 194**
	Prior Period Adjustment	$ -	$ 101
	FY2006 Beginning Balance	$ 1,098	$ 295
	Net Transactions	$ 64	$ 33
182	**FY2006 Ending Balance**	**$ 1,162**	**$ 328**
	Prior Period Adjustment	$ -	$ (9)
	FY2007 Beginning Balance	$ 1,162	$ 319
	Net Transactions	$ 115	$ (104)
215	**FY2007 Ending Balance**	**$ 1,277***	**$ 214**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Vermont Comptroller's website:
http://finance.state.vt.us/
Vermont's Comprehensive Annual Financial Reports can be found at:
http://auditor.vermont.gov/interior.php/sid/3/aid/14

VIRGINIA



Capitol Building
Richmond
Wikipedia,
The Free Encyclopedia
User: Amadeust

Virginia is required to pass a "balanced budget". Article 10, Section 7 of the 1971 Constitution requires the governor to ensure that no expenses exceed the total revenues during the fiscal period. Despite this constraint the State reported three years of budget deficits (negative net transactions) on its Budgetary Comparison Schedules. Virginia law forbids the carrying over of a deficit from one year to the next.

The Commonwealth reports 14 (12 for FY2006 and FY2005) individual governmental funds, four of which are considered major: the General, Commonwealth Transportation, Federal Trust, and Literary funds. Each year, three of the major funds (all except for the Literary Fund) and several non-major funds are budgeted. For FY2007, one more non-major governmental fund is budgeted than in previous years. Overall, budgetary information on the Budgetary Comparison Schedules is displayed in an efficient manner with all information present and ideally ordered.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 12,359	$ 2,999
	Net Transactions	$ 1,564	$ (564)
167	**FY2005 Ending Balance**	**$ 13,923**	**$ 2,435**
	Prior Period Adjustment	$ 302	$ 1,444
	FY2006 Beginning Balance	$ 14,225	$ 3,879
	Net Transactions	$ 1,874	$ (571)
167	**FY2006 Ending Balance**	**$ 16,099**	**$ 3,308**
	Prior Period Adjustment	$ 192	$ 2,113
	FY2007 Beginning Balance	$ 16,291	$ 5,421
	Net Transactions	$ 381	$ (745)
167	**FY2007 Ending Balance**	**$ 16,672***	**$ 4,676**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Virginia Comptroller's website:
http://www.doa.state.va.us/
Virginia's Comprehensive Annual Financial Reports can be found at:
http://www.doa.virginia.gov/financial_reporting/cafr/cafr_main.cfm

WASHINGTON

Mount Rainier
U.S. National Park
Service photo

Washington is required to pass a "balanced budget". Section 43.88.033 of the State law mandates the budget shall not propose expenditures in excess of the statutory limit. Section 43.88.050 requires the governor to ensure anticipated revenues match estimated expenditures. Section 43.88.110(5) requires the governor to make an "across-the-board" reduction in allotments to funds to prevent any cash deficits due to projected cash deficits. Section 43.135.025 limits state expenditures to the previous year's appropriations limit plus the fiscal growth factor, which is the average growth in state personal income for the preceding ten years. In spite of these provisions, the State's Budgetary Comparison Schedules reported budget deficits (negative net transactions) for each of the three years examined. Washington law forbids the carrying over of a deficit from one year to the next.

Washington is engaged in a practice called budgeting for fiscal discipline. Instead of the varying assumptions inherent in other states' budgets, Washington estimates revenue to grow at a fixed rate, and caps spending accordingly. While this system has varying degrees of success, keeping any shortfalls in revenue from getting out of hand, Washington also requires the budget document to conform to generally accepted accounting principles, as applicable to states.

The State's major governmental funds are the General Fund, Higher Education Special Revenue Fund and the Higher Education Endowment Permanent Fund. Of the three major governmental funds, only the General Fund is budgeted. Some non-major funds are budgeted. But judging from the differences between actual and budgeted figures, it is likely that few of the total governmental funds are budgeted. Budgetary information within the Budgetary Comparison Schedules are not efficiently ordered and do not include the necessary "total" columns.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 19,842	$ 1,423
	Net Transactions	$ 1,997	$ (808)
174	**FY2005 Ending Balance**	**$ 21,839**	**$ 615**
	Prior Period Adjustment	$ (613)	$ 2,390
	FY2006 Beginning Balance	$ 21,226	$ 3,005
	Net Transactions	$ 1,935	$ (313)
171	**FY2006 Ending Balance**	**$ 23,161**	**$ 2,692**
	Prior Period Adjustment	$ (55)	$ -
	FY2007 Beginning Balance	$ 23,106	$ 2,692
	Net Transactions	$ 2,424	$ (303)
167	**FY2007 Ending Balance**	**$ 25,530***	**$ 2,389**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Washington Comptroller's website:
http://www.ofm.wa.gov/accounting/default.asp
Washington's Comprehensive Annual Financial Reports can be found at:
http://www.ofm.wa.gov/cafr/default.asp

WEST VIRGINIA

State Capital Building
Charlotte
Wikipedia,
The Free Encyclopedia
Contributor:
Analogue Kid

West Virginia is required to pass a "balanced budget". Article VI, Section 51 of the 1872 Constitution states the "legislature shall not amend the budget bill so as to create a deficit". Yet, the State's Budgetary Comparison Schedules indicate the budget ran deficits (negative net transactions) for the three years studied. West Virginia law forbids the carrying over of a deficit from one year to the next.

The State reports the following individual major governmental funds: the General Fund, Transportation, the West Virginia Infrastructure and Jobs Development Council, and the Tobacco Settlement Finance Authority (only FY2007). The State budgets four funds on the cash basis of accounting, but their relation to the four major governmental funds is unclear. The budgeted funds are: General Revenue Fund, Federal Revenue, State Road, and Special Revenue. All information necessary for analysis is present within the Budgetary Comparison Schedules and efficiently organized.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 6,588	$ 1,244
	Net Transactions	$ 188	$ (290)
235	**FY2005 Ending Balance**	**$ 6,776**	**$ 954**
	Prior Period Adjustment	$ 118	$ 1,062
	FY2006 Beginning Balance	$ 6,894	$ 2,016
	Net Transactions	$ 684	$ (1,631)
248	**FY2006 Ending Balance**	**$ 7,578**	**$ 385**
	Prior Period Adjustment	$ -	$ 1,140
	FY2007 Beginning Balance	$ 7,578	$ 1,525
	Net Transactions	$ 1,065	$ (594)
268	**FY2007 Ending Balance**	**$ 8,643***	**$ 931**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

West Virginia Comptroller's website:
http://www.wvfinance.state.wv.us/default.htm
West Virginia's Comprehensive Annual Financial Reports can be found at:
http://www.wvfinance.state.wv.us/CAFRGAP.HTM

WISCONSIN

Canoeing through Riffles
St. Croix National Scenic Riverway
U.S. National Park Service Photo

Wisconsin is required to pass a "balanced budget". Article VII, Section 5 of the 1848 Constitution requires the legislature to "provide an annual tax sufficient to defray the estimated expenses of the State for each year." Even with this provision the State's reported budget deficits (negative net transactions) on its Budgetary Comparison Schedules for each of the three years studied. Wisconsin law allows the carrying over of a deficit from one year to the next.

The State maintains two major: General and Transportation, and several non-major governmental funds. The Wisconsin's biennial budget is prepared using a modified cash basis of accounting. Both of the two major governmental funds are budgeted, however, it is unclear how many of the total non-major funds are budgeted.

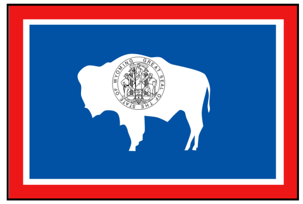
Judging from the differences between actual and budgeted figures, it is likely that few of the total non-major governmental funds are budgeted. Budgetary information within the Budgetary Comparison Schedules are not efficiently ordered and do not include the necessary "total" columns.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 4,791	$ -
	Net Transactions	$ 300	$ (1,226)
167	**FY2005 Ending Balance**	**$ 5,091**	**$ (1,226)**
	Prior Period Adjustment	$ 4	$ 1,226
	FY2006 Beginning Balance	$ 5,095	$ -
	Net Transactions	$ 176	$ (1,918)
168	**FY2006 Ending Balance**	**$ 5,271**	**$ (1,918)**
	Prior Period Adjustment	$ (25)	$ 1,918
	FY2007 Beginning Balance	$ 5,246	$ -
	Net Transactions	$ 192	$ (1,713)
167	**FY2007 Ending Balance**	**$ 5,438***	**$ (1,713)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Wisconsin Comptroller's website:
http://www.doa.state.wi.us/
Wisconsin's Comprehensive Annual Financial Reports can be found at:
http://www.doa.state.wi.us/subcategory.asp?linksubcatid=374&linkcatid=225&linkid=69&locid=3

WYOMING



Castle Geyser
during an eruption
Yellowstone National Park
Wikipedia,
The Free Encyclopedia
User: Flicka

Wyoming's "balanced budget" requirement comes in a limit the issuance of debt. Article 16 of the 1869 Constitution states that no debt in excess of taxes can be created. Wyoming law forbids the carrying over of a deficit from one year to the next.

Budgetary information with the State's CAFR is presented in a consistent manner all three years. However due to a lack of page numbers, information is difficult to locate and keep track of. For FY2006 and FY2007, the State maintained 5 major governmental funds: the General, the Foundation Program, the Legislative Reserve, the Common School Land, and the Permanent Mineral Trust Funds. For FY2005, the State reported those same funds with a single exception; instead of the Legislative Reserve Fund it maintained the Budget Reserve Fund.

For each fiscal year, only three of the five major funds are budgeted. It is unclear how many of the total non-major funds are budgeted. Judging from the differences between actual and budgeted figures, it is likely that few of the total non-major governmental funds are budgeted. The Budgetary Comparison Schedules are missing beginning and ending balances.

CAFR Timeliness	All Governmental Funds Items *(in millions)*	GAAP Basis*	Budgetary Basis
	FY2005 Beginning Balance	$ 5,598	$ -
	Net Transactions	$ 1,239	$ (502)
168	**FY2005 Ending Balance**	**$ 6,837**	**$ (502)**
	Prior Period Adjustment	$ (190)	$ 502
	FY2006 Beginning Balance	$ 6,647	$ -
	Net Transactions	$ 1,582	$ (494)
175	**FY2006 Ending Balance**	**$ 8,229**	**$ (494)**
	Prior Period Adjustment	$ (9)	$ 494
	FY2007 Beginning Balance	$ 8,220	$ -
	Net Transactions	$ 1,548	$ (1,441)
215	**FY2007 Ending Balance**	**$ 9,768***	**$ (1,441)**

* The GAAP Basis balance is not an accurate representation the State's financial condition, because significant liabilities are not included. These liabilities for the pension plans and for other post employment benefits, such as health care.

Wyoming Comptroller's website:
http://sao.state.wy.us/
Wyoming's Comprehensive Annual Financial Reports can be found at:
http://sao.state.wy.us/CAFR/cafr_report.htm

APPENDICES

GLOSSARY OF TERMS

Accountable –Being obliged to explain one's actions, to justify what one does.

Accountability –The requirement that governments answer to the citizenry---to justify raising of public resources and the purposes for which they are used.

Accounting Principles – The standards, conventions and rules used to record and summarize financial transactions, and in the preparation of financial statements.

Accrual basis – A method of accounting that recognizes events and transactions when they occur, regardless of when cash changes hands. Revenues are recorded when realized and earned, whether or not they are received in cash. Expenses are recorded when incurred whether or not such expenses are actually paid in cash.

Actuarially determined amount – The amount calculated by a statistician who evaluates an entity's pension plans by calculating the future value of employee and employer contributions and determining whether the amounts are sufficient to meet the future needs of retirees.

Annual report(s) – A thorough and detailed presentation of an entity's financial condition, which reports on the entity's activities and balances. The annual report includes the entity's financial statements and related notes.

Appropriations – Expenditures of designated amounts of public funds authorized by the legislature to be used for specified purpose.

Balance Sheet – One of an entity's basic financial statements. This statement details an entity's assets (what it owns), liabilities (what it owes) and owners' equity. A balance sheet is a snapshot of an entity's financial condition. State and local governments prepare a similar financial statement called the "Statement of Net Assets." Because people are more familiar with the term balance sheet, this document sometimes refers to the state "Statement of Net Assets" as the "balance sheet."

Basis of accounting – The rules governing when revenues, expenditures and expenses are recognized in the accounting system and reported in the financial statements.

Budget –The plan that details the resources available to the state and the allocation of those resources. A state budget is a financial representation of the goals and objectives of elected officials.

Cash basis – A method of accounting that tracks cash inflows and cash outflows. Revenues are recognized when cash is received and expenditures when cash is paid out.

Comprehensive Annual Financial Report (CAFR) – The annual report of state and local governmental entities.

Expenditures – A term used in cash basis accounting to refer to cash outflows.

Expenses – A term used in accrual basis accounting to refer to cost incurred.

Financial report(s) – see annual report and CAFR.

Fiscal deficit(s) –A deficit calculated using the full accrual accounting method.

Fiscal Year End (FYE) – The end date of an entity's accounting year.

GASB GAAP – The Generally Accepted Accounting Principles established by GASB. These principles do not require the actuarially determined pensions and other post-employment cost to be fully recognized when incurred.

Generally Accepted Accounting Principles (GAAP) – The standard framework of guidelines for financial accounting used in the United States of America. It includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.

Governmental Accounting Standards Board (GASB) – An organization that establishes and improves GAAP for U.S. state and local governments.

Inter-period equity –The principle that current-year revenues should be sufficient to pay for the services and benefits provided that year and that future taxpayer should not be required to assume burdens for services and benefits previously provided.

Modified accrual basis – A modification of accrual accounting. Revenues are generally recognized only when measurable and available to finance expenditures of the current period. Expenditures (not expenses) are recognized in the period in which the fund liability is incurred.

Off-balance sheet –An entity's asset or liability that in not reported on its balance sheet.

Other post-employment benefits (OPEB) –Other non-pension retirement benefits, including medical care, ophthalmic, dental and hearing plans, long-term care, post-employment life, disability insurance and other benefits.

Statement of Net Activities – One of a state's basic financial statements. This statement shows a state's revenues and expenses for a fiscal year. It is similar to an income statement or statement of profit/loss prepared by corporations.

Statement of Net Assets – One of a state's basic financial statements. This statement shows a state's assets and liabilities. It is similar to a balance sheet prepared by corporations.

Structural Deficit(s) – a fundamental mismatch between the revenues generated by a state's tax structure and the revenues required to fund ongoing, essential public services.

Timeliness – Financial reports should be published as soon as possible after the end of the reporting period, so the information contained in the reports is available in time to inform decision making.

Truth in Accounting – The complete information needed to make knowledgeable financial decisions. Truthful information should be accurate, relevant, understandable, reliable, timely, consistent and comparable from one reporting period to the next.

Bibliography

Anthony, Robert Newton. 2004. *Rethinking The Rules Of Financial Accounting: Examining The Rules For Proper Financial Reporting*. New York: McGraw-Hill.

The Australian Treasury. Treasury of the Australian Government, Fiscal Policy under Accrual Budgeting. 1999, <http://www.treasury.gov.au/documents/277/HTML/docshell.asp?URL=fpuab.asp> (accessed January 19, 2009).

Brown, Judith and Don Reading. March 2005. Idaho's Structural Deficit: A Problem That Won't Go Away. Idaho Center on Budget and Tax Policy Online, <http://www.uvidaho.org/Portals/5/documents/2005/Idaho'sStructuralDeficit.pdf> (Accessed January 19, 2009).

Burkholder, Steve, 2007. "GASB Faces Reporting Criticism, Concern Grows About Independence, Accounting Policy & Practice". *Bureau of National Affairs*. March 9, 2007.

California. March 29, 2008. State of California Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2007. <http://www.sco.ca.gov/ard/cafr/cafr07.pdf> (Accessed November 15, 2008).

Cavanaugh, Francis X, 1996. *The Truth About the National Debt: Five Myths and One Reality*. Boston: Harvard Business School Press.

The Civic Federation. September 30, 2008. The State of Illinois Retirement Systems: Funding History and Reform Proposals. A Civic Federation Issue Brief. <http://civicfed.org/articles/civicfed_279.pdf> (Accessed December 20, 2008).

Copley, Paul. 2008. *Essentials of Accounting for Governmental and Not-For-Profit Organizations.* New York: McGraw-Hill.

Credit Suisse. March 22, 2007. You Dropped A Bomb on Me GASB. Wall Street Journal. <http://online.wsj.com/public/resources/documents/DroppedB.pdf> (Accessed January 19, 2009).

Edwards, Chris and Jagadeesh Gokhale. 2006. Unfunded State and Local Health Costs: $1.4 Trillion. Tax and Budget Bulletin, No. 40. Washington, D.C.: Cato Institute.

Federal Accounting Standards Advisory Board. February 1993. Objectives of Federal Financial Reporting Statement of Federal Financial Accounting Concepts, Number 1. http://www.fasab.gov/pdffiles/sffac-1.pdf (Accessed November 16, 2008).

Financial Accounting Foundation. May 21, 2008. 2007 Annual Report. <http://www.fasb.org/annualreport/FAF_2007_AR.pdf> (January 19, 2009).

Fisher, Peter R. November 14, 2002. Beyond Borrowing: Meeting the Government's Financial Challenges in the 21st Century. Speech: Columbus Council on World Affairs Columbus, Ohio. <http://www.ustreas.gov/press/releases/po3622.htm> (Accessed November 17, 2008).

General Electric. December 20, 2008. 2007Annual Report. <http://www.ge.com/ar2007/pdf/ge_ar2007_financials.pdf> (Accessed January 20, 2009).

Government Accountability Office. 2000. Accrual Budgeting: Experiences of Other Nations and Implications for the United States. FAO/AIMD-00-57. <http://www.gao.gov/archive/2000/ai00057.pdf> (Accessed January 19, 2009).

Government Accountability Office. January 2008. United States Government Accountability Office Report to the Committee on Finance-U.S. Senate, State And Local Government Retiree Benefits: Current Funded Status of Pension and Health Benefits," GAO-08-223. <http://www.gao.gov/new.items/d08223.pdf> (Accessed January 19, 2009).

Governmental Accounting Standards Board. 1987. *Concepts Statement No. 1: Objectives of Financial Reporting*. Norwalk: GASB.

Governmental Accounting Standards Board. Facts About GASB. <http://gasb.org/facts/facts_about_gasb.pdf> (Accessed December 15, 2008).

Government Accounting Standards Board. 1993. *Governmental Accounting Standards Series, Statement No. 17 of the Governmental Accounting Standards Board (Dissenting Opinion) Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements NO. 099-C*. Norwalk: GASB.

Halper, Evan. September 15, 2008. California Lawmakers Reach Compromise on Budget," *Los Angeles Times*. < http://www.latimes.com/news/local/la-me-budget15-2008sep15,0,6897302.story> (Accessed January 19, 2009).

Hardiman, Patrick F. May 1989. Governmental Accounting: Who's in Charge? *The CPA Journal*. <http://luca/cpajournal/old/07505202.htm> (Accessed December 15, 2008).

Hovy, Hal. 1998. *The Outlook for State and Local Finances: The Dangers of Structural Deficits for the Future of Public Education*. Washington D.C.: National Education Association.

Hynes, Daniel W. The Section 25 Budget Loophole, A Publication of the Illinois Comptroller's Office, State of Illinois Comptroller's Office. <http://www.ioc.state.il.us/FiscalFocus/article.cfm?ID=298> (Accessed January 19, 2009).

Institute for Truth in Accounting. Homepage. <http://www.truthinaccounting.org> (Accessed December 21, 2008).

Internal Revenue Service. 2008. Department of the Treasury. 2008 Instructions for Form 1120 U.S. Corporation Income Tax Return. http://www.irs.gov/pub/irs-pdf/i1120.pdf (Accessed January 22, 2009).

International Society of Certified Employee Benefit Specialists. 2008. Living With GASB 45: How to Manage Liabilities Associated With Retiree Medical Benefits. Benefits Quarterly, First Quarter 2008, <http://www.milliman.com/expertise/employee-benefits/publications/published/pdfs/living-with-GASB-45-PA-01-01-08.pdf> (Accessed January 22, 2009).

Kaganova, Olga and Marilee Utter. August 7, 2006. The Right Way to Sell Off Public Assets. The Urban Institute. <http://www.urban.org/publications/900984.html> (Accessed January 19, 2009).

Kuotsai Tom (Editor) 2001. *Handbook of Public Management Practice and Reform (Public Administration and Public Policy).* New York: Marcel Dekker, Inc.

Lakeland Finance Department. City of Lakeland, Florida Comprehensive Annual Financial Report of the City of Lakeland, Florida, Fiscal Year Ended September 30, 2007, <http://www.lakelandgov.net/finance/files/C3AFE816BF9D4D1F8CB6B042AF1696FF.pdf> (Accessed December 20, 2008).

Levitt, Arthur Jr. October 30, 2007. Remarks by Arthur Levitt, Jr. New York Private Equity Conference. Speech: New York Private Equity Conference. <http://www.pebc.ca.gov/images/files/071113_Pension.pdf> (Accessed January 19, 2009).

Peters, Jeremy. 2008. Governors Call for Rescue Package for States. *The New York Times*, 30 October. <http://www.nytimes.com/10/30/nyregion/30paterson.html> (Accessed December 20, 2008).

The Press Enterprise. October 31, 2008. Beg or balance? <http://www.pe.com/localnews/opinion/editorials/stories/PE_OpEd_Opinion_S_op_01_ed_states1.3dcc827.html#> (Accessed January 22, 2009).

Scott, Brendan and Fredric U. Dicker, 2008. Crisis Puts NY in 'Sell' Hell: Gov Eyes Bridge, Road Privatizing. *New York Post Online*. July 30. <http://www.nypost.com/seven/07302008/news/regionalnews/crisis_puts_ny_in_sell_hell_122211.htm> (Accessed January 19, 2009).

Segal, Geoffrey. 2006. Rebuilding After a Disaster: Capitalizing Unused Assets to Pay for Recovery. Reason Foundation. <http://www.reason.org/privatization/rebuilding_after_disaster_part4_capitalizing_unused_assets.shtml> (Accessed January 19, 2009).

Stickney, Clyde P. and Roman L. Weil. 2002. *Financial Accounting: An Introduction to Concepts, Methods and Uses*. Hinsdale: The Dryden Press. <http://www.kojikojima.com/class/AfDM2005spring1Q/files/Chp3%20PPT%20PDF%20(6slides).pdf> (Accessed December 15, 2008).

Vedder, Richard. 2005. Millions flee high-tax states in little-discussed population shift. *Budget and Tax News*. December. <www.heartland.org/publications/budget%20tax/article.html?articleid=18063> (Accessed December 20, 2008).

Whitworth, Brian, Igor Balevich and Jim Kelly. 2005. *OPEB for Public Entities: GASB 45 and Other Challenges*. New York: J.P. Morgan.

Zion, David and Amit Varshney. 2007. "You Dropped a Bomb on Me, GASB: Uncovering $1.5 Trillion in Hidden OPEB Liabilities for State and Local Governments," *Equity Research, Accounting and Tax*, Credit Suisse.

Footnotes

[i] Federal Accounting Standards Advisory Board, "Objectives of Federal Financial Reporting Statement of Federal Financial Accounting Concepts, Number 1," (February 2, 1993), Paragraph 105, <http://www.fasab.gov/pdffiles/sffac-1.pdf> (Accessed November 16, 2008). This concept statement discusses the federal government, but we believe is applies to all governmental entities.

[ii] FASAB, Para. 105.

[iii] Paul Copley, "Essentials of Accounting for Governmental and Not-For-Profit Organizations, (New York: McGraw-Hill 2008), Page 58.

[iv] Robert N. Anthony, "Rethinking the Rules of Financial Accounting," (New York: McGraw-Hill, 2004), Page 151.

[v] Copley, P. 61.

[vi] Clyde P. Stickney and Roman L. Weil, "Financial Accounting: An Introduction To Concepts, Methods, And Uses, 11th ed." (Hinsdale: The Dryden Press, 1985), Page 1, Slideshow classroom presentations, Chapter 3. <http://www.kojikojima.com/class/AfDM2005spring1Q/files/Chp3%20PPT%20PDF%20(6slides).pdf> (Accessed December 15, 2008).

[vii] Internal Revenue Service, Department of the Treasury, "2008 Instructions for Form 1120 U.S. Corporation Income Tax Return," Page 5, http://www.irs.gov/pub/irs-pdf/i1120.pdf (Accessed January 22, 2009).

[viii] Government Accountability Office (GAO), "Accrual Budgeting: Experiences of Other Nations and Implications for the United States," GAO/AIMD-00-57, 2000, Page 104-105, <http://www.gao.gov/archive/2000/ai00057.pdf> (Accessed January 19, 2009).

[ix] GAO, "Accrual Budgeting."

[x] Financial Accounting Foundation, "2007 Annual Report," 21 May 2008, Page 2, <http://www.fasb.org/annualreport/FAF_2007_AR.pdf> (Accessed January 19, 2009).

[xi] Governmental Accounting Standards Board, "Facts About GASB," <http://www.gasb.org/facts/faf.html> (Accessed December 15, 2008).

[xii] Copley, P. 12.

[xiii] Copley, P. 50.

[xiv] Patrick F. Hardiman, "Governmental Accounting: Who's in Charge?" *The CPA Journal*, May 1989, <http://luca/cpajournal/old/07505202.htm> (December 15, 2008). The NCGA was originally named the National Committee on Government Accounting.

[xv] Anthony. P. 152.

[xvi] Anthony. P. 154.

[xvii] Government Accountability Office, "United States Government Accountability Office Report to the Committee on Finance-U.S. Senate, State And Local Government Retiree Benefits: Current Funded Status of Pension and Health Benefits," GAO-08-223, January 2008, Page 11, <http://www.gao.gov/new.items/d08223.pdf> (Accessed January 19, 2009).

[xviii] Steve Burkholder, "GASB Faces Reporting Criticism, Concern Grows About Independence, Accounting Policy & Practice," *Bureau of National Affairs*, March 9, 2007.

[xix] Arthur Levitt, "Remarks by Arthur Levitt, Jr., New York Private Equity Conference," (Speech: New York Private Equity Conference), October 30, 2007, <http://www.pebc.ca.gov/images/files/071113_Pension.pdf> (Accessed January 19, 2009).

[xx] Governmental Accounting Standards Board, "Governmental Accounting Standards Series, Statement No. 17 of the Governmental Accounting Standards Board (Dissenting Opinion) Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements," NO. 099-C, (Norwalk.: GASB, June 1993).

[xxi] GASBCS 1, Para. 60.

[xxii] Credit Suisse, "You Dropped A Bomb on Me GASB," *Wall Street Journal*, 22 March 2007, <http://online.wsj.com/public/resources/documents/DroppedB.pdf> (Accessed January 19, 2009).

[xxiii] General Electric, "2007Annual Report," 20 December 2008, <http://www.ge.com/ar2007/pdf/ge_ar2007_financials.pdf> (Accessed January 20, 2009).

[xxiv] Tom Kuotsia (Editor) "Handbook of Public Management Practice and Reform (Reforming American Government Accounting in 20th Century)," (New York: Marcel Dekker, Inc. 2001) Pages 108-109.

[xxv] The Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals", *A Civic Federation Issue Brief,* 30 September 2008, Page 14, <http://civicfed.org/articles/civicfed_279.pdf> (Accessed December 20, 2008).

[xxvi] Lakeland Finance Department, City of Lakeland, Florida, Comprehensive Annual Financial Report of the City of Lakeland, Florida, Fiscal Year Ended September 30, 2007, <http://www.lakelandgov.net/finance/files/C3AFE816BF9D4D1F8CB6B042AF1696FF.pdf> (Accessed December 20, 2008).

[xxvii] Chris Edwards, and Jagadeesh Gokhale. "Unfunded State and Local Health Costs: $1.4 Trillion." *Tax and Budget Bulletin*, No. 40 (Washington, D.C.: Cato Institute, 2006); David Zion and Amit Varshney, "You Dropped a Bomb on Me, GASB: Uncovering $1.5 Trillion in Hidden OPEB Liabilities for State and Local Governments," *Equity Research, Accounting and Tax* (Credit Suisse: 2007); Brian Whitworth, Igor Balevich, and Jim Kelly, "OPEB for Public Entities: GASB 45 and Other Challenges" (J.P. Morgan: 2005).

[xxviii] International Society of Certified Employee Benefit Specialists. "Living With GASB 45: How to Manage Liabilities Associated With Retiree Medical Benefits," *Benefits Quarterly*, First Quarter 2008, <http://www.milliman.com/expertise/employee-benefits/publications/published/pdfs/living-with-GASB-45-PA-01-01-08.pdf> (Accessed January 19, 2009).

[xxix] Credit Suisse.

[xxx] California, "State of California Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2007," 28 March 2008, Page 10, <http://www.sco.ca.gov/ard/cafr/cafr07.pdf> (Accessed November 15, 2008).

[xxxi] Copley, P. 58.

[xxxii] Cavanaugh, P. 123.

[xxxiii] GASBCS 1, Para. 60.

[xxxiv] P. 25 GAO

[xxxv] Evan Halper, "California Lawmakers Reach Compromise on Budget." *Los Angeles Times*, 15 September 2008, <http://www.latimes.com/news/local/la-me-budget15-2008sep15,0,6897302.story> (Accessed January 19, 2009).

[xxxvi] Hal Hovy, "The Outlook for State and Local Finances: The Dangers of Structural Deficits for the Future of Public Education." (Washington D.C.: National Education Association, 1998), Page 4.

[xxxvii] Judith Brown and Don Reading, "Idaho's Structural Deficit: A Problem That Won't Go Away," *Idaho Center on Budget and Tax Policy Online,* March 2005, <http://www.uvidaho.org/Portals/5/documents/2005/Idaho'sStructuralDeficit.pdf> (Accessed January 19, 2009).

[xxxviii] Scott Brendan and Fredric U. Dicker, "Crisis Puts NY in 'Sell' Hell: Gov Eyes Bridge, Road Privatizing," *New York Post Online,* 30 July 2008, <http://www.nypost.com/seven/07302008/news/regionalnews/crisis_puts_ny_in_sell_hell_122211.htm> (Accessed January 19, 2009).

[xxxix] Geoffrey Segal, "Rebuilding After A Disaster: Capitalizing Unused Assets to Pay for Recovery," The Reason Foundation, 2006, <http://www.reason.org/privatization/rebuilding_after_disaster_part4_capitalizing_unused_assets.shtml> (Accessed December 15, 2008).

[xl] Olga Kaganova and Marilee Utter, "The Right Way to Sell Off Public Assets," The Urban Institute. 7 August 2006, <http://www.urban.org/publications/900984.html> (Accessed January 19, 2009).

[xli] Anthony, Page 151.

[xlii] Illinois State Comptroller Daniel W. Hynes Office, "The Section 25 Budget Loophole," A Publication of the Illinois Comptroller's Office, <http://www.ioc.state.il.us/FiscalFocus/article.cfm?ID=298> (Accessed January 19, 2009).

[xliii] Jeremy W. Peters, “Governors Call for Rescue Package for States,” *The New York Times*, 30 October 2008, <http://www.nytimes.com/10/30/nyregion/30paterson.html> (Accessed December 20, 2008).

[xliv] The Press Enterprise, “Beg or balance?” October 31, 2008 <http://www.pe.com/localnews/opinion/editorials/stories/PE_OpEd_Opinion_S_op_01_ed_states1.3dcc827.html#> (Accessed January 17, 2009).

[xlv] Institute for Truth in Accounting, “Homepage, <http://www.truthinaccounting.org> (Accessed December 21, 2008).

[xlvi] Peter R. Fisher, “Beyond Borrowing: Meeting the Government’s Financial Challenges in the 21st Century”, 14 November 2002, (Speech: Columbus Council on World Affairs Columbus, Ohio), <http://www.ustreas.gov/press/releases/po3622.htm> (Accessed November 17, 2008).

[xlvii] GAO, “Accrual Budgeting,” P. 158.

[xlviii] GASBCS 1, Summary.

[xlix] Levitt. Speech.

[l] FASAB, P. 105.