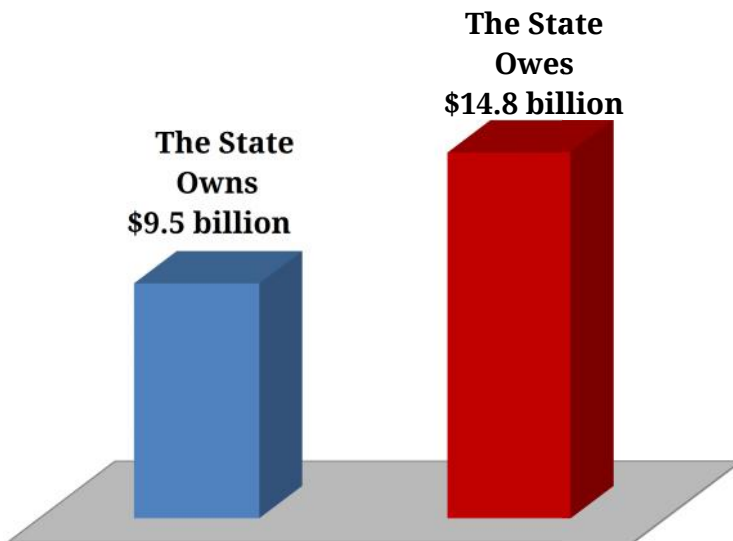


THE 15th WORST STATE

ARIZONA IS A SINKHOLE STATE



THE STATE'S BILLS EXCEED ITS ASSETS

The state of Arizona is sinking in debt. The State's \$5.3 billion shortfall represents compensation and other costs that have been pushed into the future.

Each Taxpayer's Share of This Financial Burden is \$3,000

Arizona statutes require the legislature to pass a balanced budget. One of the reasons Arizona is in this precarious financial position is state officials use antiquated budgeting and accounting rules to report Arizona's financial condition. Since employee retirement benefits are not immediately payable in cash, the related compensation costs have been ignored when calculating balanced budgets.

Number of taxpayers based on the number of Arizona federal tax filers with a tax liability.

RETIREMENT LIABILITIES ARE MASSIVELY UNDERSTATED

Reported Retirement Liabilities **\$15,481,000**

Actual Retirement Liabilities **\$3,069,528,000**

Truth in Accounting's detailed analysis discovered a total of \$3.1 billion of retirement benefits have been promised but not funded. Because of the confusing way the State does its accounting, only \$15.5 million of these liabilities are reported on Arizona's balance sheet.

- ☀ The Institute for Truth in Accounting is committed to compelling governments to provide citizens with truthful and transparent financial information.
- ☀ We call on governments to truthfully balance their budgets by including all real and certain expenses when incurred not when paid.
- ☀ A transparent budget process would provide citizens with the information they need to be knowledgeable participants in their state government.

To be knowledgeable participants in their State government, citizens need to be provided with truthful and transparent financial information.

Data is derived from the state of Arizona's June 30, 2012 audited Comprehensive Annual Financial Report and retirement plans' actuarial reports.

The Financial State of Arizona
As of June 30, 2012

The State's Bills Exceed Its Assets

Assets	\$42,226,334,000
Less: Capital Assets	\$25,267,356,000
Restricted Assets	\$7,477,838,000
Assets Available to Pay Bills	\$9,481,140,000
Less: Bills	\$14,761,964,000
Money Needed to Pay Bills	\$5,280,824,000
Each Taxpayer's* Burden	\$3,000

The state of Arizona has \$42.2 billion in assets, but most of these assets are not available to pay State bills.

The \$25.3 billion of capital assets, such as roads, buildings, and land should not be sold to pay bills. The use of \$7.5 billion of the assets is restricted by law or contract.

That leaves \$9.5 billion of State's assets available to pay \$14.8 billion of bills as they come due.

The \$5.3 billion shortfall represents compensation and other costs incurred in prior years that should have been paid in those prior years. Instead these costs have been shifted to future taxpayers.

Today Each Taxpayer Owes \$3,000

Number of taxpayers is based on the number of Arizona federal tax filers with a tax liability.

Data is derived from the state of Arizona's June 30, 2012 audited Comprehensive Annual Financial Report and retirement plans' actuarial reports.



The Bills the State Has Accumulated

State Bonds	\$6,858,260,000
Other Liabilities	\$11,581,504,000
Less: Debt Related to Capital Assets	\$6,747,328,000
Unfunded Pension Benefits	\$2,902,814,000
Unfunded Retirees' Health Care Benefits	\$166,714,000
Bills	\$14,761,964,000

Despite the balanced budget requirement, the State has accumulated bonds of \$6.9 billion and other liabilities of \$11.6 billion. The calculation of assets available to pay bills does not include capital assets, so \$6.7 billion of related debt is removed from the calculation of State Bills.

Unfunded employees' retirement benefits represent 21% of State bills. These unfunded liabilities have accumulated because State employees have been promised \$2.9 billion of pension benefits and \$166.7 million of retirees' health care benefits, but the State has not adequately funded them.

Unless these pension and retirees' health care benefits are renegotiated, future taxpayers will be burdened with paying for these benefits without receiving any corresponding government services or benefits.

**All Retirement Liabilities
Are Not Clearly Disclosed**

Reported Retirement Liabilities	\$15,481,000
Unreported Retirement Liabilities	\$3,054,047,000
Total Retirement Liabilities	\$3,069,528,000

A detailed study of Arizona's actuaries' schedules found retirement benefits totaling \$3.1 billion have been promised, but not funded. But a review of the State's balance sheet determined only \$15.5 million of these liabilities are reported. This means 21% of the State's liabilities are not reported on the State's balance sheet.