

## EXECUTIVE SUMMARY

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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*.**