The States' Financial Transparency Score

2025

Truth in Accounting
Daniels College of Business
UNIVERSITY OF DENVER

Intro

In the spirit of promoting clear and accurate fiscal information, Truth in Accounting has once again assessed the transparency of state governments' financial reporting. While state budgets receive most of the public and media attention, their results are detailed in each government's Annual Comprehensive Financial Report (ACFR), which is audited annually by certified public accountants. Our transparency score is based on key criteria outlining best practices, offering government officials and citizens a roadmap to improve fiscal transparency and accountability.

All data and comments in this report are based on information available as of August 31, 2024. For Arizona, California, Illinois, Mississippi, Oklahoma, and Nevada, fiscal year 2022 data was used, as 2023 data was not yet available. This report otherwise relies on fiscal year 2023 data for 44 states.

Criteria

To receive the top score of 100 points, a government's annual report must meet the following criteria:

50 points	Receive a clean opinion from an independent auditor (This criterion also applies to the annual report of the state government's largest pension plan.)
15 points	Include a net position not distorted by misleading and confusing deferred items
10 points	Report all retirement liabilities on its balance sheet (Statement of Net Position)
10 points	Be published within 100 days of the government's fiscal year-end
5 points	Be searchable with useful links from the table of contents and bookmarks
5 points	Be audited by an independent auditor who is not an employee of the government (This criterion also applies to the annual report of the state government's largest pension plan.)
5 points	Measure the net pension liability using the same date as the annual report

Key Findings

Utah and **West Virginia** earned the top scores, with Utah receiving 89 and West Virginia receiving 88 out of 100 points. **Indiana, Idaho,** and **New York** rounded out the top five states in that order.

Overall, transparency scores for all 50 states improved compared to the previous year. The most significant improvement was reduced distortions of state net positions, mainly due to a decline in the dollar value of confusing deferred inflows (more on those later).

West Virginia experienced the most significant improvement, with a 17-point gain, primarily due to a decline in the dollar amount of its deferred inflows.

Hawaii's score experienced the most significant decrease, dropping 33 points, including 25 points due to the Employee Retirement System's failure to issue its 2023 Annual Comprehensive Financial Report at the time of research.

Illinois ranked the lowest, followed by **Connecticut, North Carolina, Hawaii,** and **Vermont**. The reasons these states received low scores are outlined as follows: Illinois has not issued its 2023 state financial report and its 2022 report received a disclaimer of opinion. Connecticut, North Carolina, and Hawaii did not have audited financial reports for their largest pension plans, and a high percentage of complex and confusing deferred items distorted their financial positions. Additionally, Connecticut used a state official, the state auditor, to audit its state financial report.

Audit Opinions

Given the importance of a clean audit opinion, half of our transparency score is based on this criterion alone. Unfortunately, governments face few consequences when they receive a qualified or disclaimer opinion. In contrast, when a company gets a qualified or disclaimer opinion, it may face increased regulatory scrutiny, a loss of investor confidence, and higher borrowing costs or difficulty obtaining financing.

Three states received a disclaimer of opinion in their financial reports, while four received a qualified opinion.

A disclaimer of opinion is akin to an incomplete grade. Just as students might receive an incomplete when they fail to finish an exam or lack necessary materials, an entity receives a disclaimer when the auditor cannot gather enough evidence to form a complete judgment about the financial statements.

A qualified opinion is similar to a passing grade, where the student could not provide complete or accurate answers in certain areas. In the same way, a qualified opinion means the auditor can express an opinion on most of the financial statements, except for specific areas where evidence was insufficient or inaccurate.

Alaska and **Georgia** were the only states to receive a disclaimer of opinion on their 2023 financial reports. Alaska's opinion was due to its failure to provide audited financial statements for the Alaska International Airports Fund, which affected the state's business activities. Georgia's Department of Labor did not provide adequate or appropriate audit evidence to verify whether certain paid unemployment claims met eligibility requirements. Furthermore, the auditors could not determine whether the unemployment compensation fund's balances, revenues, and expenses were free from material misstatement.

Illinois received a disclaimer of opinion on its 2022 report, but as of December 17, 2024, the state had not released its 2023 report. **California** and **Nevada** also had not issued their reports by that date, though both received a qualified opinion on their 2022 reports.

Kentucky's and Missouri's 2023 financial reports included qualified opinions. Kentucky received a qualified opinion because no actuarial report was issued for the Petroleum Storage Tank Environmental Administration Fund. As a result, the auditor was unable to obtain sufficient, appropriate evidence regarding claims liability amounts and claims adjustment expenses. Missouri's auditors were denied access to tax returns and related source documents for income taxes, which account for approximately 26% of governmental activities revenues and 29% of general fund revenues.

Colorado, North Carolina, Tennessee, and **Vermont** each lost 25 points on their transparency scores because their largest pension plans do not issue separate audited financial reports. **Hawaii's** Employees' Retirement System typically issues a financial report, but its score was reduced by 25 points this year because the 2023 financial report was unavailable on its website.

Net Position Distortions

Scores improved in 36 states, primarily due to the decreased dollar value of deferred inflows, which are associated mainly with pensions and retiree health care benefits. The Governmental Accounting Standards Board (GASB) requires governments to use complex and misleading accounts called deferred outflows and deferred inflows. These accounts often distort a government's net position, overall financial condition, and reported revenues and expenses.

For example, rather than recognizing the full gain in the value of pension plan investments as income during the year it occurs, a government records the gain as a deferred inflow on the liability side of its balance sheet. As a result, the government's net position may be understated. Each state's score is based on the percentage by which the asset side of its balance sheet is overstated due to deferred outflows, combined with the percentage by which the liability side is overstated due to deferred inflows.

Alabama, California, Connecticut, Illinois, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, North Carolina, Pennsylvania, Vermont, and Wisconsin received the lowest score—five out of fifteen—primarily due to overstatements on the liability side of their balance sheets. New Jersey had the highest percentage of balance sheet distortions, with its asset side overstated by more than 24% and its liability side overstated by over 24%.

Hidden Retirement Debt

A state's net pension liability is calculated by subtracting the market value of its pension system investments from the estimated amount of promised benefits. Unfortunately, in 45 states, the net pension liability, including the market value, is based on outdated data. For example, many states used 2022 market values to calculate the net pension liabilities reported in their 2023 financial reports. Given the recent market volatility, this practice may result in net pension liability figures that do not accurately reflect a state's financial reality at the end of its 2023 fiscal year. In some cases, this discrepancy has led to hidden pension debt, as the 2022 net pension liability used in the 2023 reports was lower than the actual 2023 figures.

In three states, we identified significant hidden retirement debt, largely due to the failure to include debt related to teachers' pensions on the states' balance sheets. Oklahoma had the highest percentage, 95%, of hidden retirement liabilities. The state did not include most of the Teachers' Retirement System pension liability despite providing 80% of its school districts' funding. Michigan had the second-highest percentage, 68%, primarily because it excluded most of the Public Schools Employee Retirement System liabilities, even though it also provides the majority of school funding to each district. Kansas kept nearly 68% of its pension debt off its balance sheet, mainly because it does not include the school division of the Kansas Public Employees Retirement System, despite the state funding the public schools' contributions to the plan.

Scores

Ranking	Total Transparency Score	State	Auditor Opinion	Deferred Items	Off-Balance Sheet Liabilities	Timeliness	Navigation	External Auditors	Pension Data Timing
28	**78**	**Alabama**	50	5	9	6	4	2	2
41	**60**	**Alaska**	25	14	10	2	5	2	2
30	**77**	**Arizona**	50	8	10	0	5	2	2
22	**79**	**Arkansas**	50	9	10	7	1	0	2
44	**56**	**California**	35	5	10	0	4	2	0
23	**79**	**Colorado**	50	8	10	5	3	2	1
49	**48**	**Connecticut**	25	5	10	2	4	0	2
29	**78**	**Delaware**	50	5	10	2	4	5	2
31	**77**	**Florida**	50	8	10	3	4	0	2
45	**55**	**Georgia**	25	9	10	5	4	2	0
47	**51**	**Hawaii**	25	6	9	2	4	3	2
4	**86**	**Idaho**	50	10	10	7	5	2	2
50	**47**	**Illinois**	25	5	10	0	3	2	2
3	**87**	**Indiana**	50	10	10	5	5	2	5
7	**84**	**Iowa**	50	8	10	7	4	3	2
14	**83**	**Kansas**	50	13	4	8	1	5	2
40	**61**	**Kentucky**	35	7	10	3	2	2	2
24	**79**	**Louisiana**	50	8	10	6	1	2	2
25	**79**	**Maine**	50	5	10	7	3	2	2
8	**84**	**Maryland**	50	6	10	3	5	5	5
32	**77**	**Massachusetts**	50	5	10	0	4	5	3
35	**75**	**Michigan**	50	8	4	9	2	0	2
9	**84**	**Minnesota**	50	10	10	7	5	0	2
37	**70**	**Mississippi**	50	7	8	0	3	2	0
38	**66**	**Missouri**	35	10	10	2	5	2	2

Scores

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36	**75**	**Montana**	50	9	10	0	4	0	2
26	**79**	**Nebraska**	50	7	10	7	3	0	2
42	**58**	**Nevada**	35	5	7	0	4	5	2
15	**83**	**New Hampshire**	50	5	10	7	4	5	2
33	**76**	**New Jersey**	50	5	10	2	5	2	2
19	**80**	**New Mexico**	50	7	10	0	3	5	5
5	**86**	**New York**	50	6	10	8	5	5	2
48	**50**	**North Carolina**	25	5	9	8	3	0	0
10	**84**	**North Dakota**	50	9	10	7	4	2	2
20	**80**	**Ohio**	50	9	8	7	3	2	1
39	**65**	**Oklahoma**	50	6	1	0	4	2	2
21	**80**	**Oregon**	50	9	9	5	3	2	2
16	**81**	**Pennsylvania**	50	5	7	7	5	5	2
17	**81**	**Rhode Island**	50	11	10	3	5	0	2
27	**79**	**South Carolina**	50	6	6	7	3	5	2
11	**84**	**South Dakota**	50	10	10	6	4	2	2
43	**58**	**Tennessee**	25	11	10	7	3	0	2
18	**81**	**Texas**	50	5	10	6	5	3	2
1	**89**	**Utah**	50	14	10	7	5	2	1
46	**53**	**Vermont**	25	5	10	5	3	3	2
12	**84**	**Virginia**	50	11	10	7	4	0	2
6	**86**	**Washington**	50	9	9	7	4	5	2
2	**88**	**West Virginia**	50	10	10	7	4	5	2
34	**76**	**Wisconsin**	50	5	9	7	4	0	1
13	**84**	**Wyoming**	50	11	10	4	3	5	1

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