

Management's Discussion and Analysis



Mary Naomi Willard Brooks served as First Lady from 1905 to 1911. Mrs. Brooks was the First Lady to occupy the Wyoming Governor's Mansion. Photo Credits: Wyoming State Archives, Department of State Parks and Cultural Resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The State Auditor's Office offers readers of the State of Wyoming's financial statements this narrative overview and analysis of the financial activities of the State of Wyoming for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iii of this report.

Financial Highlights

Government-Wide:

- The assets of the State of Wyoming exceeded its liabilities as of June 30, 2007 by \$10.1 billion (reported as net assets). Of this amount, \$3.3 billion is unrestricted net assets that may be used to meet the government's ongoing obligations. Component units reported net assets of \$6.5 billion.

Fund Level:

- As of June 30, 2007, the State of Wyoming's governmental funds reported combined ending fund balances of \$9.4 billion, an increase of \$1.5 billion.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$528.2 million.
- The enterprise funds reported net assets at year-end of \$368.3 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Wyoming's basic financial statements. Financial reporting is intended to provide external parties that read financial statements with information that will help them to make decisions or draw conclusions about an entity. These parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the State's annual report consists of three major sections in accordance with required reporting standards: Management's Discussion and Analysis (MD&A), the basic financial statements, and required supplemental information. The State of Wyoming's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the State of Wyoming's finances, in a manner similar to a private-sector business. The State's government-wide financial statements include the *statement of net assets* and *statement of activities*. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

- The purpose of the *statement of net assets* is to report all of the assets held and liabilities owed by the State. The State reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. The difference between the State's total assets and total liabilities is titled *net assets* and this difference is similar to the owner's equity presented by a private-sector business.

The government-wide statement of net assets can be found on page 19 of this report.

- The purpose of the *statement of activities* is to present all the revenues and expenses of the State of Wyoming. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a private-sector business in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the State. Revenues are recorded when earned regardless of when the cash will be received and expenses are recorded even though they may not have been paid during the current period (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide statement of activities can be found on pages 20-21 of this report.

Both statements report three activities:

- *Governmental Activities* – Most of the State’s basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Workers’ compensation and the State’s unemployment compensation services are examples of business-type activities.
- *Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 3 authorities, 1 university, and 2 state agencies that are reported as discretely presented component units of the State. The State blends 1 component unit into the internal service funds.

Fund financial statements. The major fund financial statements begin on page 22 and provide more detailed information about the State’s most significant funds – not the State of Wyoming as a whole. Funds are accounting devices that the State uses to keep track of specific sources of funding and spending. Except for the general fund, a specific fund is established to satisfy legal requirements established by external parties or governmental statutes or regulations. The State of Wyoming establishes other funds to control and manage money for particular purposes or to show that it is properly using certain resources. All of the funds of the State of Wyoming can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** Most of the State’s basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures, and change in fund balances. The statements are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements. All of the State’s programs are included in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out in a short period of time. For example, amounts reported on the balance sheet include items such as cash and receivables collectable within a short period of time, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid in a short period after the end of the fiscal year. The difference between a fund’s total assets and liabilities is labeled as the fund balance. The unreserved-undesignated portion of fund balance generally indicates the amount that can be used to finance next year’s activities.

The operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid in cash, respectively, during the current period or very shortly after the end of the year. Consequently, the governmental funds statements provide a short-term view that helps determine if there are more or fewer financial resources to finance the State’s programs. Because this information does not encompass the long-term focus of the government-wide statements, we provide an analysis reconciling the total fund balances to the amount of net assets reported in the statement of net assets.

Also, there is an analysis following the statement of revenues, expenditures, and changes in fund balances that reconciles the change in net assets of the governmental activities presented in the government-wide statement of activities to the change in fund balance presented in the statement of revenue expenditures and changes in fund balance. These two reconciliation schedules (pages 23 and 25) provide an analysis of transitioning from modified accrual accounting (Fund Basis) to full accrual accounting (Government-wide Basis). The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements.

- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, bonds payable, and others only appear as liabilities in the government-wide statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- **Proprietary funds.** When the State charges customers for the services it provides, whether to outside customers or to other state agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting: the same method used by private sector businesses. Enterprises funds report activities that provide supplies and services to the general public. An example is the State Workers' Compensation. Internal service funds report activities that provide supplies and services for the State's other programs and activities-such as the State's Information Technology Division. Internal service funds are reported as governmental activities on the government-wide statements since their primary purpose is to support those activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are broken out between major and non-major. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the supplementary information section of this report.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

- **Fiduciary funds.** The State acts as a trustee or fiduciary for its employee pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These statements include pension, investment trust, private purpose, and agency funds, which use accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32-88 of this report.

Required Supplementary Information is presented that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparisons schedules primarily prepared on a biennial basis. Also included is a discussion of the Wyoming Department of Transportation (DOT) and how they account for infrastructure assets using the modified approach.

Required supplementary information can be found on pages 89-97 of this report.

Other Supplementary Information includes combining statements referred to earlier in connection with non-major governmental, enterprise, internal service and fiduciary funds that are presented immediately following the required supplementary information.

Other supplementary information can be found on pages 99-177 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a State's financial position. In the case of the primary government (State of Wyoming), assets exceeded liabilities by \$10.1 billion at the close of fiscal year 2007. This was an increase of \$1.5 billion. This increase in net assets was due primarily to continued high prices for the State's energy commodities. While commodity prices remained high relative to historical standards, prices had decreased for the State's commodities most notably natural gas prices. This increase is reflected in the State's mineral severance tax and federal mineral royalties, major revenue sources for the State.

The following condensed financial information was derived from the government-wide Statement of Net Assets:

State of Wyoming's Net Assets for Fiscal Year Ended June 30, 2007						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Current and other non-current assets	\$ 12,554,201,020	\$ 14,370,787,909	\$ 1,645,379,332	\$ 1,936,298,567	\$ 14,199,580,352	\$ 16,307,086,476
Capital assets, net of accumulated depreciation	404,988,174	424,839,576	4,771,210	4,333,676	409,759,384	429,173,252
Total assets	12,959,189,194	14,795,627,485	1,650,150,542	1,940,632,243	14,609,339,736	16,736,259,728
Current liabilities	4,617,939,914	4,931,385,555	724,968,158	800,343,873	5,342,908,072	5,731,729,428
Long-term liabilities	112,598,924	96,245,433	743,990,661	771,990,481	856,589,585	868,235,914
Total liabilities	4,730,538,838	5,027,630,988	1,468,958,819	1,572,334,354	6,199,497,657	6,599,965,342
Net assets:						
Invested in capital assets, net of related debt	355,153,842	377,054,638	4,771,210	4,023,040	359,925,052	381,077,678
Restricted	4,761,197,971	6,095,047,829	244,684,061	342,939,117	5,005,882,032	6,437,986,946
Unrestricted (deficit)	3,112,298,543	3,295,894,030	(68,263,548)	21,335,732	3,044,034,995	3,317,229,762
Total net assets	\$ 8,228,650,356	\$ 9,767,996,497	\$ 181,191,723	\$ 368,297,889	\$ 8,409,842,079	\$ 10,136,294,386

The investments in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding, is \$381.1 million. The State of Wyoming uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the State of Wyoming's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

It should be noted that during the implementation of Governmental Accounting Standards Board Statement 42-Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, the State identified an impaired asset. This asset with a book value totaling \$8,682,136, is one of the State's correctional facilities whose original service utility is no longer being received due to significant structural erosion to the buildings and their foundations. It has been determined the cost to restore the structural foundations to make the buildings sound outweighed the costs of new construction. While this facility has not been demolished, plans are imminent to implement this objective.

An additional portion of the State of Wyoming's net assets, \$6.4 billion, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$3.3 billion.

The majority of the current and other non-current assets of \$16.3 billion, consists of various cash and pooled investments of \$10.6 billion, and accounts receivable, due from other governments and loan receivables (including interest receivable) of \$1.8 billion. The remaining amount is comprised of other assets such as inventory and prepaid expenses.

The current liabilities of \$5.7 billion are comprised of various items: \$3.6 billion is related to liabilities under security lending; \$167 million is related to claims and benefits payable; \$1.6 billion is related to various accounts payable. The amount of unavailable revenue totaling \$258 million is attributable to property taxes and long term loans reserved. The remaining amount of \$75 million is made up of compensated absences, early retirement, current portion of bonds payable, and various other liabilities.

The majority of the long-term liabilities of \$868 million, is comprised of claims and benefits payable of \$783 million, compensated absences of \$35 million and bonds payable of \$44 million. The remaining amount is made up of various other liabilities.

As of June 30, 2007, the State of Wyoming is able to report positive balances in all three categories of net assets for the government as a whole. The same situation held true for the prior fiscal year.

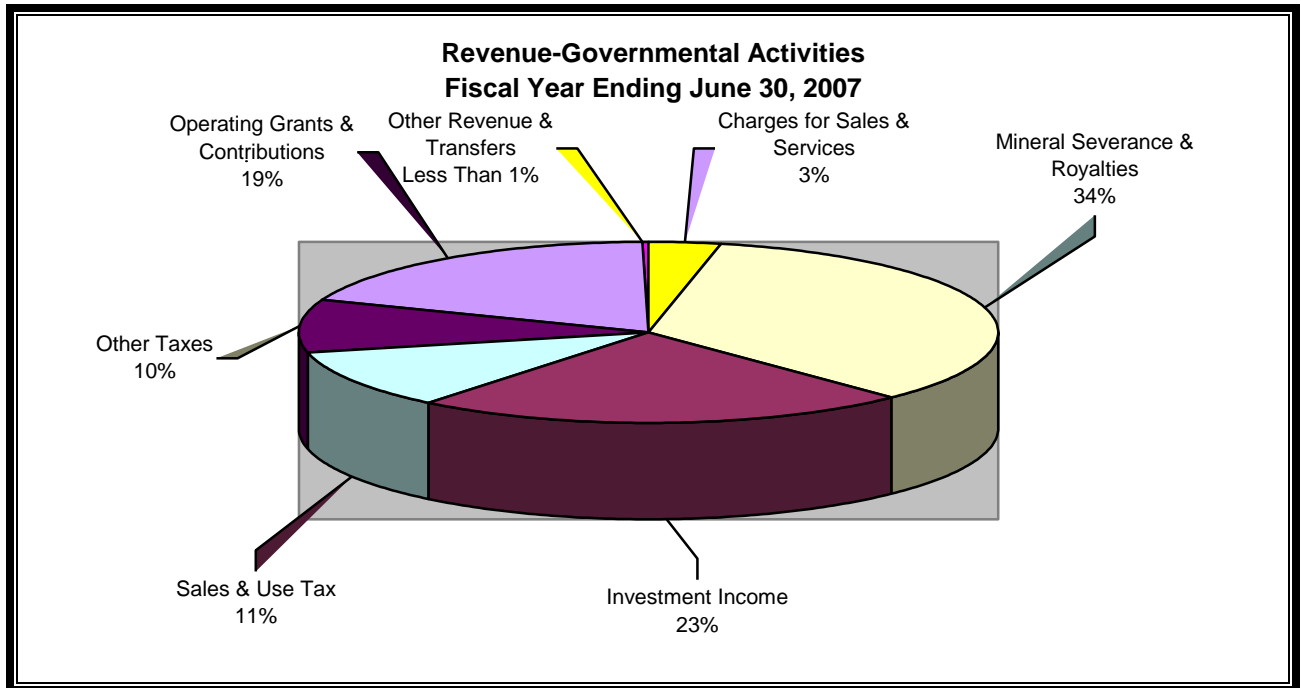
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

State of Wyoming's Changes in Net Assets for Fiscal Year Ended June 30, 2007						
Statement of Activities						
	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues:						
Charges for services	\$ 169,797,006	\$ 165,042,682	\$ 361,347,251	\$ 414,786,895	\$ 531,144,257	\$ 579,829,577
Operating grants	877,068,721	908,570,771	3,328,406	3,898,062	880,397,127	912,468,833
Capital grants and contributions	294,322	6,138,458	0	0	294,322	6,138,458
General revenues:						
Taxes	2,763,639,454	2,619,722,171	0	0	2,763,639,454	2,619,722,171
Gain on exercise lease purch. option	0	0	0	0	0	0
Investment income	441,109,901	1,099,108,962	21,225,723	64,910,931	462,335,624	1,164,019,893
Total revenues	4,251,909,404	4,798,583,044	385,901,380	483,595,888	4,637,810,784	5,282,178,932
Expenses:						
General government	352,229,101	514,362,797	0	0	352,229,101	514,362,797
Business regulations	26,571,368	24,590,452	0	0	26,571,368	24,590,452
Education	960,936,677	1,210,355,791	0	0	960,936,677	1,210,355,791
Health services	649,142,897	670,919,762	0	0	649,142,897	670,919,762
Law, justice and safety	175,875,278	208,398,562	0	0	175,875,278	208,398,562
Employment	52,263,572	35,688,098	0	0	52,263,572	35,688,098
Recreation and resource development	313,564,639	415,584,990	0	0	313,564,639	415,584,990
Social services	115,479,222	120,899,768	0	0	115,479,222	120,899,768
Transportation	26,104,589	55,912,419	0	0	26,104,589	55,912,419
Interest	3,657,848	2,398,324	0	0	3,657,848	2,398,324
Workers' Compensation Insurance			200,812,558	175,109,179	200,812,558	175,109,179
Liquor Commission			58,005,332	65,002,709	58,005,332	65,002,709
Canteen Fund			1,060,091	1,099,997	1,060,091	1,099,997
Subsidence Insurance			10,433	26,638	10,433	26,638
Honor Farm Ag. sales			359,651	363,706	359,651	363,706
WY Health Insurance			7,638,643	8,886,860	7,638,643	8,886,860
Unemployment Compensation			34,904,563	37,444,434	34,904,563	37,444,434
Total expenses	2,675,825,191	3,259,110,963	302,791,271	287,933,523	2,978,616,462	3,547,044,486
Increase (decrease) in net assets before transfers	1,576,084,213	1,539,472,081	83,110,109	195,662,365	1,659,194,322	1,735,134,446
Transfers	5,690,202	8,556,196	(5,690,202)	(8,556,196)	0	0
Increase (decrease) in net assets	1,581,774,415	1,548,028,277	77,419,907	187,106,169	1,659,194,322	1,735,134,446
Net assets beginning	6,837,404,530	8,228,650,356	103,771,816	181,191,720	6,941,176,346	8,409,842,076
Accounting Change (Footnote 1(D))	(190,528,589)	(8,682,136)	0	0	(190,528,589)	(8,682,136)
Net assets beginning restated	6,646,875,941	8,219,968,220	103,771,816	181,191,720	6,750,647,757	8,401,159,940
Net assets ending	\$ 8,228,650,356	\$ 9,767,996,497	\$ 181,191,723	\$ 368,297,889	\$ 8,409,842,079	\$ 10,136,294,386

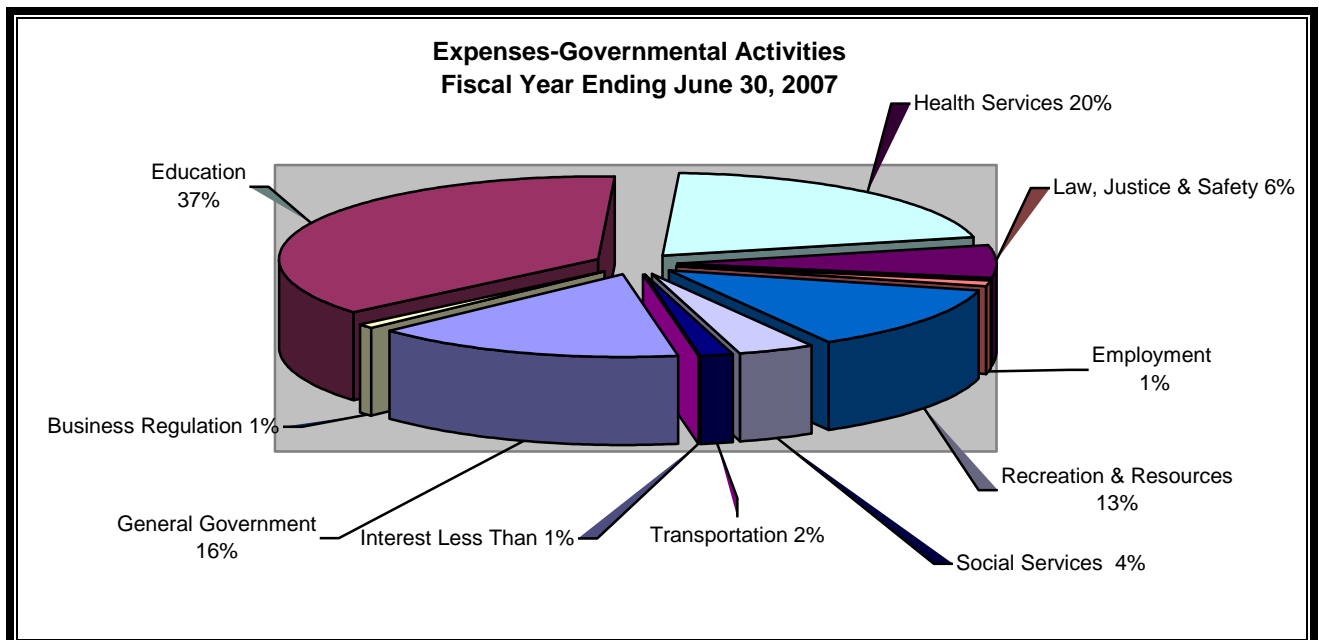
The increase in net assets related to governmental activities for the State of Wyoming was \$1.5 billion during the current fiscal year. The majority of this increase is attributable to the revenues received from the State's commodities

in the form of mineral severance taxes, federal mineral royalties and the State's sales and use tax on items related to the mining industry.

The chart below represents revenues of the governmental activities for the fiscal year:



The following chart represents expenses of the governmental activities for the fiscal year:



Business-type activities. The net assets of the business type activities increased by \$187.1 million during the fiscal year. Half of this change was do in part to an increase of \$98 million in total revenues and a reduction of total expenditures of \$15 million.

Financial Analysis of the State of Wyoming's Funds

As noted earlier, the State of Wyoming uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State of Wyoming's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources, as stated earlier. Such information is useful in assessing the State of Wyoming's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2007, the State of Wyoming's governmental funds reported combined ending fund balances of \$9.4 billion, an increase of \$1.5 billion, in comparison with the prior year. Of this total fund balance, \$5.9 billion, is reserved within the permanent funds as nonexpendable. In addition, a portion of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period, \$553 million, 2) for loans and advance receivables, \$359 million or 3) for inventory and prepaid expenses \$8.4 million.

General Fund. The general fund is the chief operating fund of the State of Wyoming. At the end of the current fiscal year, unreserved fund balance of the general fund was \$528.2 million, while total fund balance reached \$794.3 million. The net change in fund balance for 2007 in the general fund was a \$703 million increase. A major element which factors in the change in fund balance, whether the change is an increase as it is this year or a decrease which it was last year, is primarily a result of a legislative directive that requires the undesignated general fund balance to be capped at an amount not to exceed \$10 million at the end of a biennium. Because Fiscal Year 2007 is the middle of the biennium, this cap does not apply, and the amount in excess of \$10 million is not transferred out but is allowed to remain in the General Fund. This legislative requirement will continue to cause significant swings in the General Fund's undesignated fund balance from year to year until appropriately corrected. A more detailed comparative analysis of the activity for the General Fund can be found on pages 12-15, of this MD&A.

Foundation Program Fund. Fund balance at June 30, 2007 totaled \$102.4 million, a net decrease in fund balance of \$(5.7) million. This fund also carries a legislative restriction on its undesignated fund balance which states it shall not exceed \$100 million. This restriction resulted in the transfer out of \$149.6 million to the Excellence in Higher Education Endowment Fund.

Legislative Reserve Fund. Fund balance at June 30, 2007 totaled \$718 million, a net decrease in fund balance \$(533) million for the year. A major piece of this decrease was the \$1.2 million in total transfers from this fund of which \$1.1 billion was to the General Fund.

Common School Land Fund. As of June 30, 2007, this fund balance totaled \$1.7 billion, a net change in fund balance of \$287.9 million for the year. This increase due primarily to a continued trend of total revenues exceeding total expenditures year over year, \$373.4 million in fiscal year 2007 and \$212.3 million in fiscal year 2006.

Permanent Mineral Trust Fund. Fund balance at June 30, 2007, totaled \$3.8 billion, a net change in fund balance of \$675.2 million for the year and a \$140.6 million increase year over year. These changes between years is primarily due to a \$297 million increase in the change in fair market value of investments a decline of \$68 million in mineral severance tax revenues and a return of \$19.2 in interest earnings from the spending policy reserve funds per legislatively directed caps.

Proprietary funds. The State of Wyoming's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds as of June 30, 2007, totaled \$21.3 million. The major enterprise fund, the Worker's Compensation Fund, had net assets of \$68.4 million as of June 30, 2007, which is a \$146 million improvement over the prior year. The majority of this improvement is a result of a \$73.5 million increase for charges and services and non-operating revenues.

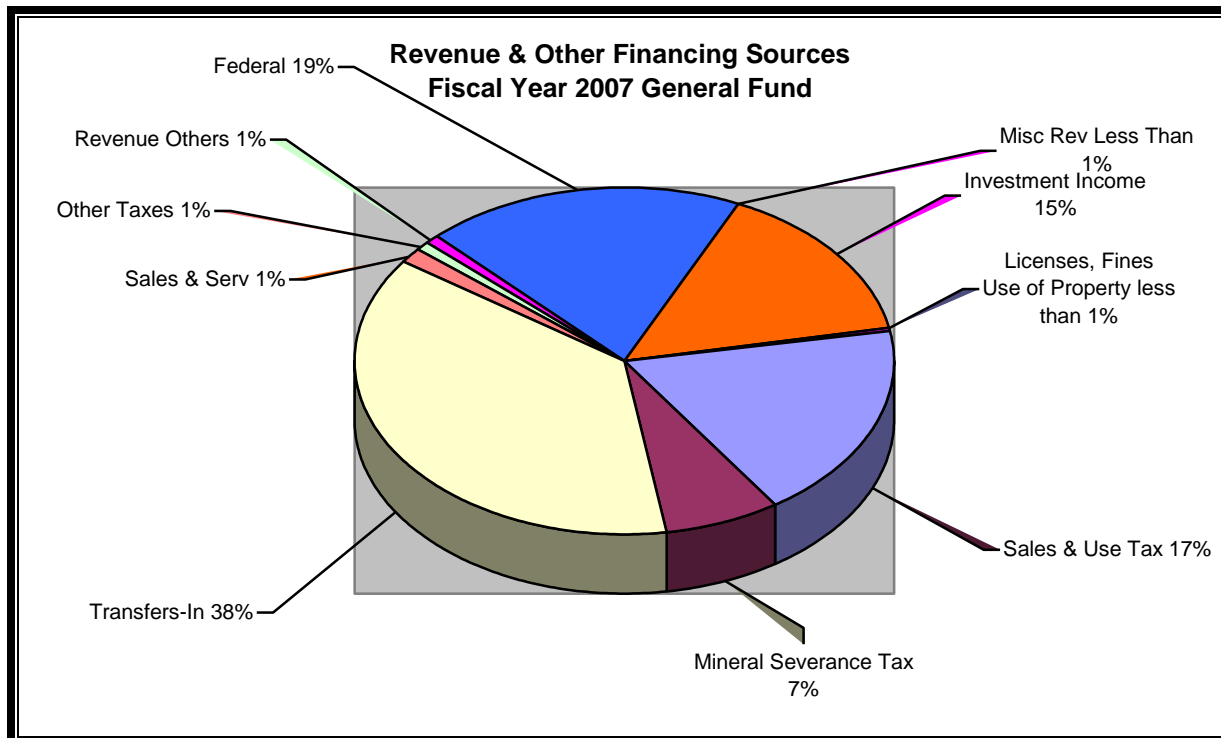
General Fund Budgetary Highlights

The adjusted 2007-2008 Biennial Appropriations for the General Fund totaled \$3.8 billion. The budgetary changes to the General Fund for fiscal year 2007 totaled a net increase \$464.5 million.

The major increases are briefly summarized below:

- \$56.5 million increase for various capital construction projects;
- \$100 million for state highway road construction; and
- \$191.25 million for increases to various state programs including Health Services,
- \$19.75 million for Wildlife Trust Fund
- \$51.25 million for local government distributions.
- \$33.25 million for the business ready community program
- \$12.5 million for employee salary and benefits including \$3.3 million for retiree health benefits

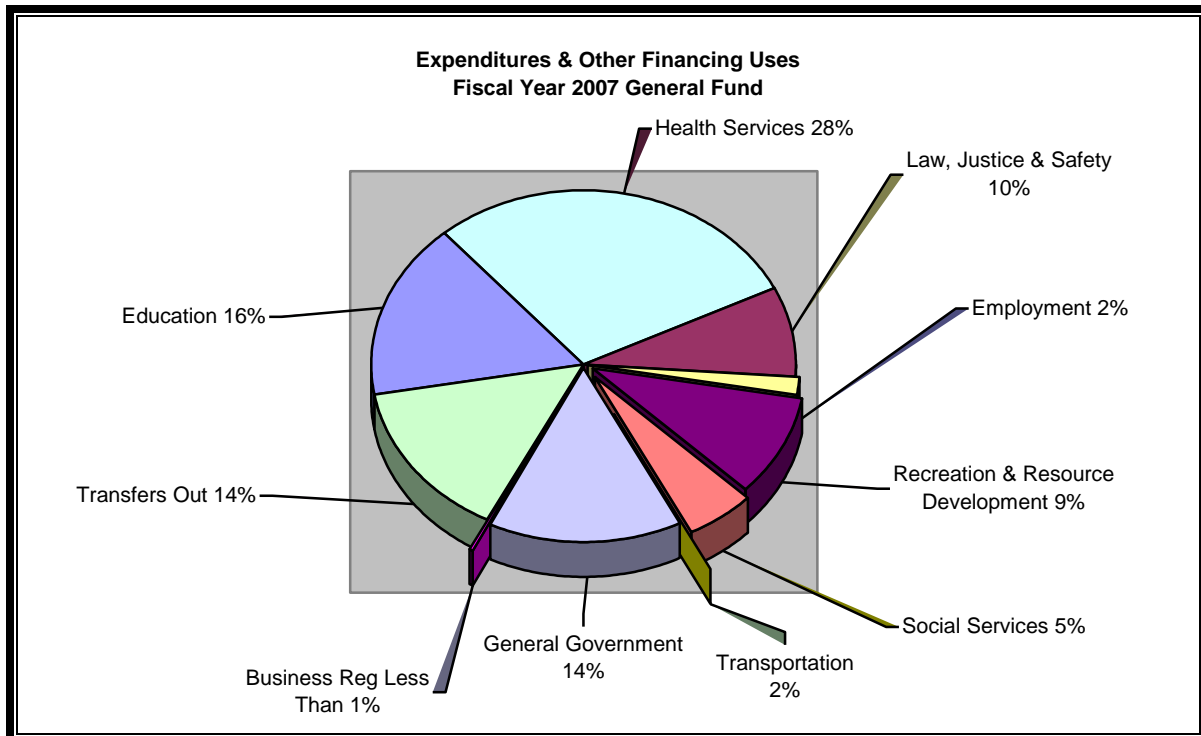
The total general fund revenues are presented in a pie chart below to display how sources relate to total revenue. The table on the following page shows the change in 2006 and 2007 revenue sources. On page 14, General Fund expenditures are similarly presented, depicting functions as they relate to total expenditures.



As shown in the table following, total Revenue saw improvement, as well as Other Financing Sources (transfers-in) increased 252% or \$820.4 million in fiscal year 2007. The General Fund saw a significant increase from investment income and minor changes across the majority of the other revenue sources. Interest from the Permanent Mineral Trust Fund increased approximately \$19 million and interest income from the General Fund's investments increased approximately \$59 million over 2006. This increase to interest income is primarily attributable to the State's securities lending program whose transactions were grossed up for financial reporting purposes. This resulted in an increase to investment income of \$43 million year over year for fiscal year 2007. The adjustment to fair market value for investments resulted in an \$11.8 million increase for fiscal year 2007 versus a \$40 million dollar decrease for fiscal year 2006.

General Fund Revenue and Other Financing Sources for Fiscal Year Ended June 30, 2007				
	FY06	FY07	Increase (Decrease)	Percent Change
Taxes:				
Sales & Use	\$ 456,998,802	\$ 507,799,309	\$ 50,800,507	11%
Mineral Severance	239,446,125	214,195,441	(25,250,684)	-11%
Other Taxes	25,753,016	30,844,715	5,091,699	20%
Licenses and Permits	5,303,054	7,121,315	1,818,261	34%
Fines & Forfeitures	5,237,115	2,218,064	(3,019,051)	-58%
Use of Property	4,974,186	6,376,143	1,401,957	28%
Investment Income	339,538,419	469,182,014	129,643,595	38%
Charges for Sales & Services	27,976,398	41,672,823	13,696,425	49%
Revenue from Others	16,814,942	25,316,779	8,501,837	51%
Federal	558,771,965	585,697,295	26,925,330	5%
Miscellaneous Receipts	67,086	65,831	(1,255)	-2%
Federal Mineral Royalties	2,000,000	2,000,000	0	0%
Total Revenues	<u>1,682,881,108</u>	<u>1,892,489,729</u>	<u>209,608,621</u>	<u>12%</u>
Other Financing Sources:				
Capital Leases	352,505	865,423	512,918	146%
Transfers-In	326,088,990	1,146,564,237	820,475,247	252%
Total Other Financing Sources	<u>326,441,495</u>	<u>1,147,429,660</u>	<u>820,988,165</u>	<u>251%</u>
Total Revenue & Other Financing Sources	<u>\$ 2,009,322,603</u>	<u>\$ 3,039,919,389</u>	<u>\$ 1,030,596,786</u>	<u>51%</u>

Because the Legislature considers the General Fund and Budget Reserve Fund as one 'pot' when making appropriations, transfers from the Budget Reserve to the General Fund are used as a 'budget balancer' in the Appropriations Bill to 'balance out' the expenditures coming from the General Fund. The percentage change of transfers-in to the General Fund is a result of these 'budget balancer' transfers and may vary widely year to year depending on whether it's the end of a biennium or the middle of a biennium. Fiscal year 2007 is the middle of a biennium. As noted in the above table, transfers in for fiscal year 2007 show an increase of 252 percent from 2006. This percentage increase is a function of the 'budget balancer' transfers discussed above as well as reversing the adjusting entry for 2006, which was a transfer out in 2006 and reversed against transfers-in for 2007. This had the net effect of increasing the transfers-in amount for 2007 and attributed to the percentage increase. The amount involved was \$346.7 million.



As shown in the table following, overall Expenditures increased by 14% or \$244 million, while Other Financing Uses decreased by 16 percent or \$65.6 million in fiscal year 2007. General Government increased its expenditures by \$28 million. A majority of this increase to General Government expenditures was the result of recording securities lending expenditures on a gross basis for financial reporting purposes. This added \$214 million to General Government expenditures year over year, \$43 million increase for fiscal year 2007. Additionally, General Fund reversions previously accounted for as a transfer out, were treated as a reduction of expenditures.

Transportation expenditures increased \$39 million or 236 percent. This percentage increase is attributable to the State beginning to fund highway maintenance from the General Fund. GAAP requires these transfers to a component unit be reclassified as expenditures in the primary government, rather than as a "transfer."

Recreation & Resource Development increased \$80.2 million or 60 percent. This increase was largely attributable to increased funding to cities, towns and counties through legislatively directed payments utilizing specific formulae distributions.

	FY06	FY07	Increase (Decrease)	Percent Change
General Government	\$ 304,251,971	\$ 332,147,341	\$ 27,895,370	9%
Business Regulation	6,847,020	7,581,622	734,602	11%
Education	349,953,372	373,334,406	23,381,034	7%
Health Services	622,453,080	664,911,556	42,458,476	7%
Law, Justice and Safety	166,365,091	193,736,842	27,371,751	16%
Employment	43,276,550	36,350,569	(6,925,981)	-16%
Recreation & Resource Development	132,797,950	213,061,441	80,263,491	60%
Social Services	112,334,671	122,013,645	9,678,974	9%
Transportation	16,638,630	55,912,419	39,273,789	236%
Total Expenditures	1,754,918,335	1,999,049,841	244,131,506	14%
Other Financing Uses				
Transfers-Out	403,264,308	337,568,552	(65,695,756)	-16%
Total Expenditures & Other Financing Uses	\$ 2,158,182,643	\$ 2,336,618,393	\$ 178,435,750	8%

Because the Legislature considers the General Fund and Budget Reserve Fund as one 'pot' when making appropriations, transfers from the Budget Reserve to the General Fund are used as a 'budget balancer' in the Appropriations Bill to 'balance out' the expenditures coming from the General Fund. The percentage change of transfers-in to the General Fund is a result of these 'budget balancer' transfers and may vary widely year to year depending on whether it's the end of a biennium or the middle of a biennium. Fiscal year 2007 is the middle of a biennium. As reflected above, transfers out for fiscal year 2007 show a decrease of 16 percent from 2006. A part of the decrease is attributable to reversing the prior year adjusting entry of transfers-in for 2006 against transfers-out for 2007. This had the effect of decreasing transfers-out for the year. The amount involved totaled \$346.7 million.

Capital Asset and Debt Administration

Capital Assets. The State of Wyoming's investment in capital assets, net of related debt, for its governmental and business type activities as of June 30, 2007, amounts to \$381.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, and park facilities.

Major capital asset events during the current fiscal year included the following:

- The Supreme Court building continues to receive a major upgrade totaling approximately \$15 million and estimated completion in July of 2008.
- Architectural design and construction is underway for the new Military Headquarters; \$140 million had been appropriated for the complete project.
- Construction continues on the new prison in Torrington for the Department of Corrections construction in progress had reached approximately \$11 million.

More detailed information about the State's incomplete construction in progress is presented in Note 13 to the basic financial statements, on page 84.

At the end of the fiscal year 2007, the State had invested \$389 million, net of accumulated depreciation, in a broad range of capital assets (see the table below). The accumulated depreciation as of June 30, 2007, totaled \$353 million.

Capital Assets, Net of Depreciation for Fiscal Year Ended June 30, 2007							
	Governmental Activities		Business-Type Activities		2006		2007
	2006	2007	2006	2007	Total Primary Government	Total Primary Government	
Land	\$ 13,377,475	\$ 24,521,122	\$ 0	\$ 0	\$ 13,377,475	\$ 24,521,122	
Buildings, structures, & improvements	239,605,698	264,976,127	0	0	239,605,698	264,976,127	
Equipment, furniture, & fixtures	53,935,342	60,933,229	4,756,377	3,999,057	58,691,719	64,932,286	
Capitalized leases	1,115,050	1,427,251	14,833	334,619	1,129,883	1,761,870	
Construction in progress	96,954,609	72,981,847	0	0	96,954,609	72,981,847	
Total	\$ 404,988,174	\$ 424,839,575	\$ 4,771,210	\$ 4,333,676	\$ 409,759,384	\$ 429,173,251	

Additional information on the State of Wyoming's capital assets can be found in Note 5 on pages 64-67 of this report.

The State's Department of Transportation (DOT), a component unit of the State, is responsible for the majority of the infrastructure (consisting of roadways and bridges). As allowed by GASB Statement No. 34, DOT has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, DOT expenses certain maintenance and preservation costs and does not report depreciation expense. More detailed information about the DOT capital assets and the reporting criteria are available in the Wyoming Department of Transportation Component Unit Financial and Compliance Report as of September 30, 2006 and on pages 96-97 of this report. DOT's policy is to maintain 83% of its national highway system bridges and 80% of its non-national highway system bridges in acceptable or above condition. In 2006, 96.5% of all NHS bridges were rated acceptable or above and 92.8% of non NHS bridges were rated acceptable or above. DOT's policy is to maintain its national highway system streets at an average rating of 3.25 and its non-national highway system streets at 3, on a 0-5 point scale. In 2006, the National Highway System streets rated 3.43 and the non-national highway system rated 3.14.

Bonded debt.

The state did not issue any new debt for fiscal year 2007 either as new or as refunding of old debt.

At the end of the current fiscal year, the State of Wyoming had total bonded debt outstanding of \$46 million. This amount, represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The State of Wyoming has a debt limitation for revenue bonds relating to capital construction in the amount of \$105 million, which is significantly in excess of the outstanding revenue bond debt.

The State of Wyoming received a "SP1+" rating from Standard & Poor's Corporation and a "F1+" rating from Fitch IBCA, Inc. for its tax and revenue anticipation notes, which were issued July 3, 2007 and which are due June 27, 2008. The total amount issued and to be redeemed is \$250 million.

Additional information on the State of Wyoming's long-term debt can be found in Note 9 on pages 70-75 of this report.

Economic Outlook and Condition

Nationally, the economy has been very strong, but has been threatened by soaring energy prices, particularly oil prices affecting the price consumers pay for gasoline. While these increased energy prices have produced very good news for the State's fiscal picture for fiscal year 2007, the prices Wyoming natural gas producers and coal bed methane producers have received and are receiving in fiscal year 2008 caused the Consensus Revenue Estimating Group to temper its 2009-2010 revenue forecast. Part of the problem remains that Wyoming producers cannot get their product to market due to insufficient pipeline capacity.

Wyoming's Economy

According to the Economic Analysis Division's (EAD) *Ten Year Outlook Wyoming Economic Forecast: 2007-2016*—for most economic indicators, Wyoming's economy does not mirror the national economy. Wyoming's state economy continues to be one of the least diversified in the nation. This report further illustrates the importance of how the Mining Sector continues to be one of the most important sectors in Wyoming's economy. For example, data for the latest year cited 2005 showed that mining contributed 30 percent to the State's Gross State Product (GSP), while nationwide, this sector's contribution to the gross domestic product was 1.7 percent.

The other area, which this report cites as reflecting the magnitude of Wyoming's dependence on the mining industry, is the State's finances. Mineral severance taxes, Interest from the Permanent Mineral Trust Fund, mining related sales and use tax collections, a gross products tax levied on mineral production and federal mineral royalties provide major sources of revenue for the State's General Fund, for primary and secondary education including school capital construction, and for cities, towns and counties of Wyoming. These sources combined are the primary reason Wyoming has no state personal or corporate tax and a comparatively low residential property tax. The report goes on to say that ...In terms of revenue sources the provision of public services in the state are about as dependent on mining industries in fiscal year 2006 as in fiscal year 1981.

This report's short-term and long-term outlook will see stronger than average growth, which will continue to be supported by increased natural gas mining. Although mining jobs are expected to slow to more sustainable levels, the increased demand for the state's natural resources from national markets will help provide a steady source of mining jobs and revenues for the State. Outside of the mining industry, however, the State's future prospects will be somewhat limited by a job market that fails to attract high-growth job opportunities. Although migration has recently reversed to a positive trend, many younger and educated workers will be tempted to move to other states with more versatile job opportunities as long as labor markets are relatively tight in those economies.

- As of June 2007, Wyoming's unemployment rate was 3.3 percent the same as June 2006. This compares favorably with the 4.5% rate for the United States in June of 2007, which also improved slightly from its year ago mark of 4.6 percent unemployment.
- For additional information and analysis of Wyoming's economy you are referred to the following website of the State's economic analysis division at <http://eadiv.state.wy.us/>

Readers should be cautioned that commodity prices for Wyoming energy, most notably natural gas, began to decline during fiscal year 2007 and natural gas has continued to remain flat or decline slightly for the first five months of fiscal year 2008. There has been some decline in active rig counts for natural gas and coal bed methane during fiscal year

2007 and continuing into fiscal year 2008. This may affect the major sources of revenue to Wyoming which are mineral severance taxes, federal mineral royalties and sales and use taxes. A major assumption propping up the projected sales and use tax increases is the continued robust oil and gas sector with its significant workforce, which buys homes, cars and makes purchases which otherwise ripple through the State's economy.

Request for information

This financial report is designed to provide a general overview of the State of Wyoming's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Wyoming, State Auditor's Office, State Capitol, Room 114, Cheyenne WY, 82002 or see at <http://sao.state.wy.us/>.

