

Management's Discussion and Analysis



Single Vertol helicopter
filling bucket above Madison
River (photographer Jeff
Henry)



Bomber dropping liquid retardant
(photographer Jeff Henry)



Foam trucks at northeast entrance
(photographer Jim Peaco)



Bell-212 helicopter filling bucket
from Clark's Fork River
(photographer Jim Peaco)

More than 100 fire engines and 120 helicopters and aircraft were used to combat the inferno. Aircraft logged over 18,000 hours of flight time and dropped 1.4 million gallons of fire retardant and 10 million gallons of water on the fires. Photo Credits: The Official Website of Yellowstone National Park; Yellowstone Digital Slide File.

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, 2008. 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, 2008 by \$11.3 billion (reported as net assets). Of this amount, \$3.8 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, 2008, the State of Wyoming's governmental funds reported combined ending fund balances of \$10.4 billion, an increase of \$1 billion.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$10 million. This was after the transfer of \$642 million to the Budget Reserve Fund, per legislative directive.
- The enterprise funds reported net assets at year-end of \$462 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 32-90 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 91-99 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 101-179 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 \$11.3 billion at the close of fiscal year 2008. This was an increase of \$1.2 billion. This increase in net assets was due primarily to continued high prices for the State's energy commodities. For fiscal year 2008 commodity prices remained high relative to historical standards, these prices had continued to increase as oil hit an all time high of \$147 per barrel and natural gas prices, which had declined in the first half of fiscal year 2008 rose during the second half. These increases are 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:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2008	2007	2008	2007	2008
Current and other non-current assets	\$ 14,370,787,909	\$ 15,263,823,788	\$ 1,936,298,567	\$ 2,024,546,873	\$ 16,307,086,476	\$ 17,288,370,661
Capital assets, net of accumulated depreciation	424,839,576	514,786,521	4,333,676	2,893,256	429,173,252	517,679,777
Total assets	14,795,627,485	15,778,610,309	1,940,632,243	2,027,440,129	16,736,259,728	17,806,050,438
Current liabilities	4,931,385,555	4,839,086,685	800,343,873	768,794,114	5,731,729,428	5,607,880,799
Long-term liabilities	96,245,433	89,522,108	77,199,041	796,356,041	868,235,914	885,878,149
Total liabilities	5,027,630,988	4,928,608,793	1,572,334,354	1,565,150,155	6,599,965,342	6,493,758,948
Net assets:						
Invested in capital assets, net of related debt	377,054,638	469,809,103	4,023,040	2,730,936	381,077,678	472,540,039
Restricted	6,095,047,829	6,582,594,145	342,939,117	438,386,465	6,437,986,946	7,020,980,610
Unrestricted (deficit)	3,295,894,030	3,797,598,268	21,335,732	21,172,573	3,317,229,762	3,818,770,841
Total net assets	\$ 9,767,996,497	\$ 10,850,001,516	\$ 368,297,889	\$ 462,289,974	\$ 10,136,294,386	\$ 11,312,291,490

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 \$473 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.

An additional portion of the State of Wyoming's net assets, \$7 billion, represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is \$3.8 billion.

The majority of the current and other non-current assets of \$17.3 billion, consists of various cash and pooled investments of \$14.8 billion, and accounts receivable, due from other governments and loan receivables (including interest receivable) of \$2.3 billion. The remaining amount is comprised of other assets such as inventory and prepaid expenses.

The current liabilities of \$5.6 billion are comprised of various items: \$2.5 billion is related to liabilities under security lending; \$225 million is related to claims and benefits payable; \$2.5 billion is related to various accounts payable. The amount of unavailable revenue totaling \$263 million is attributable to property taxes and long term loans reserved. The remaining amount of \$112 million is made up of compensated absences, current portion of bonds payable, and various other liabilities.

The majority of the long-term liabilities of \$886 million is comprised of claims and benefits payable of \$808 million, compensated absences of \$20 million and bonds payable of \$41 million. The State implemented GASB 45 for fiscal year 2008. The initial net OPEB liability is \$12 million. The remaining amount is made up of various other liabilities.

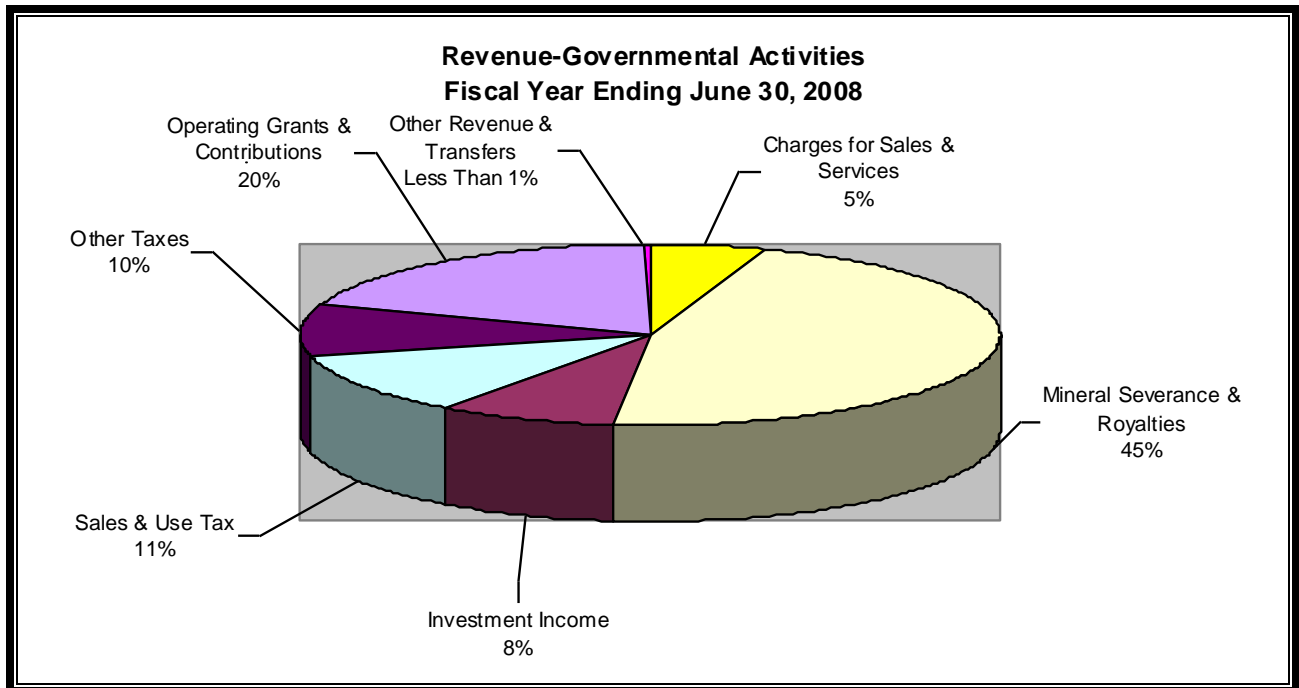
As of June 30, 2008, the State of Wyoming is able to report positive balances in all three categories of net assets for the government as a whole. The same situation held true for the prior fiscal year.

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:

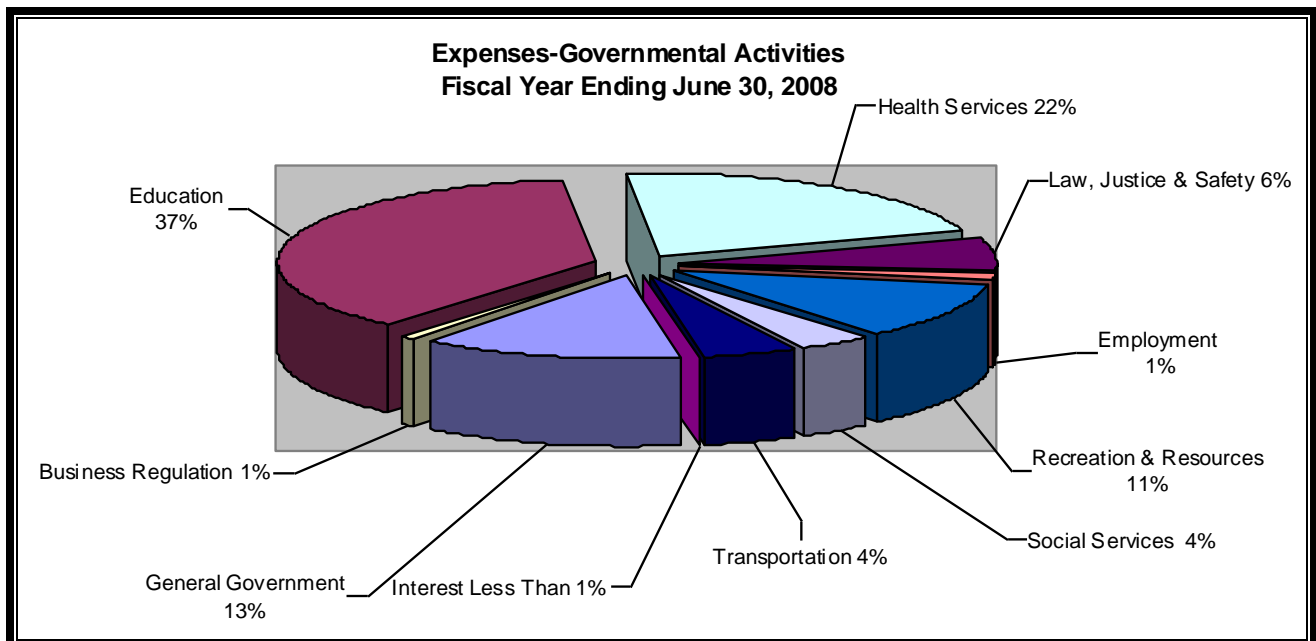
State of Wyoming's Changes in Net Assets for Fiscal Year Ended June 30, 2008 Statement of Activities						
	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program revenues:						
Charges for services	\$ 165,042,682	\$ 256,924,154	\$ 414,786,895	\$ 422,386,614	\$ 579,829,577	\$ 679,310,768
Operating grants	908,570,771	933,935,477	3,898,062	3,386,536	912,468,833	937,322,013
Capital grants and contributions	6,138,458	5,997,717	0	0	6,138,458	5,997,717
General revenues:						
Taxes	2,619,722,171	3,149,557,383	0	0	2,619,722,171	3,149,557,383
Investment income	1,099,108,962	403,719,161	64,910,931	47,523,826	1,164,019,893	451,242,987
Total revenues	<u>4,798,583,044</u>	<u>4,750,133,892</u>	<u>483,595,888</u>	<u>473,296,976</u>	<u>5,282,178,932</u>	<u>5,223,430,868</u>
Expenses:						
General government	514,362,797	496,018,747	0	0	514,362,797	496,018,747
Business regulations	24,590,452	30,756,984	0	0	24,590,452	30,756,984
Education	1,210,355,791	1,363,669,891	0	0	1,210,355,791	1,363,669,891
Health services	670,919,762	803,030,483	0	0	670,919,762	803,030,483
Law, justice and safety	208,398,562	225,666,408	0	0	208,398,562	225,666,408
Employment	35,688,098	54,599,502	0	0	35,688,098	54,599,502
Recreation and resource development	415,584,990	415,003,026	0	0	415,584,990	415,003,026
Social services	120,899,768	141,294,358	0	0	120,899,768	141,294,358
Transportation	55,912,419	166,731,502	0	0	55,912,419	166,731,502
Interest	2,398,324	2,651,584	0	0	2,398,324	2,651,584
Workers' Compensation Insurance			175,109,179	230,492,115	175,109,179	230,492,115
Liquor Commission			65,002,709	70,170,582	65,002,709	70,170,582
Canteen Fund			1,099,997	1,322,405	1,099,997	1,322,405
Subsidence Insurance			26,638	285,279	26,638	285,279
Honor Farm Ag. sales			363,706	408,463	363,706	408,463
WY Health Insurance			8,886,860	16,816,636	8,886,860	16,816,636
Unemployment Compensation			37,444,434	49,055,382	37,444,434	49,055,382
Total expenses	<u>3,259,110,963</u>	<u>3,699,422,485</u>	<u>287,933,523</u>	<u>368,550,862</u>	<u>3,547,044,486</u>	<u>4,067,973,347</u>
Increase (decrease) in net assets before transfers	1,539,472,081	1,050,711,407	195,662,365	104,746,114	1,735,134,446	1,155,457,521
Transfers	8,556,196	10,754,029	(8,556,196)	(10,754,029)	0	0
Increase (decrease) in net assets	1,548,028,277	1,061,465,436	187,106,169	93,992,085	1,735,134,446	1,155,457,521
Net assets beginning	8,228,650,356	9,767,996,497	181,191,720	368,297,889	8,409,842,076	10,136,294,386
Prior Period Adjustment (Footnote 1(D))	(8,682,136)	20,539,583	0	0	(8,682,136)	20,539,583
Net assets beginning restated	8,219,968,220	9,788,536,080	181,191,720	368,297,889	8,401,159,940	10,156,833,969
Net assets ending	<u>\$ 9,767,996,497</u>	<u>\$ 10,850,001,516</u>	<u>\$ 368,297,889</u>	<u>\$ 462,289,974</u>	<u>\$ 10,136,294,386</u>	<u>\$ 11,312,291,490</u>

The increase in net assets related to governmental activities for the State of Wyoming was \$1 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 \$94 million during the fiscal year. This change was an overall increase of revenues over expenditures of \$94 million for fiscal year 2008 activity.

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, 2008, the State of Wyoming's governmental funds reported combined ending fund balances of \$10.4 billion, an increase of \$1 billion, in comparison with the prior year. Of this total fund balance, \$6.4 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, \$515 million, 2) for loans and advance receivables, \$370 million or 3) for inventory and prepaid expenses \$3 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 \$10 million, while total fund balance was \$212 million. The net change in fund balance for 2008 in the general fund was a \$582 million decrease. A major element which factors in the change in fund balance, as to whether the change is a decrease as it is this year or an increase 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 2008 is the end of the biennium, this cap applies, and the amount in excess of \$10 million is transferred out to the Budget Reserve Fund. For this reporting period this transfer totaled \$642 million. 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, 2008 totaled \$450 million, a net increase in fund balance of \$347.5 million. This fund had carried a legislative restriction on its undesignated fund balance which stated it shall not exceed \$100 million. This restriction is no longer in effect due to the Excellence in Higher Education Endowment Fund (Hathaway Scholarship and Excellence in Higher Education funds being fully funded during fiscal year 2008. For the biennium ending June 30, 2010, the undesignated fund balance in excess of \$100 million is to be transferred to the Permanent Common School Land Fund.

Legislative Reserve Fund. Fund balance at June 30, 2008 totaled \$1.4 billion, a net increase in fund balance \$729 million for the year. A major portion of this increase was the \$642 million being transferred from the General Fund to this fund.

Common School Land Fund. As of June 30, 2008, this fund balance totaled \$1.9 billion, a net increase in fund balance of \$107 million for the year. This increase due to those school trust lands managed for the benefit of schools producing \$35 million more in revenues over 2007, and investment income \$65 million greater in 2008 than in 2007.

Permanent Mineral Trust Fund. Fund balance at June 30, 2008, totaled \$4.2 billion, a net increase in fund balance of \$377 million for the year. These changes between years is primarily due to a \$105 million increase in mineral severance taxes, and a return of interest income from the General Fund, resulting in \$171 million in investment earnings being returned to this corpus 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.

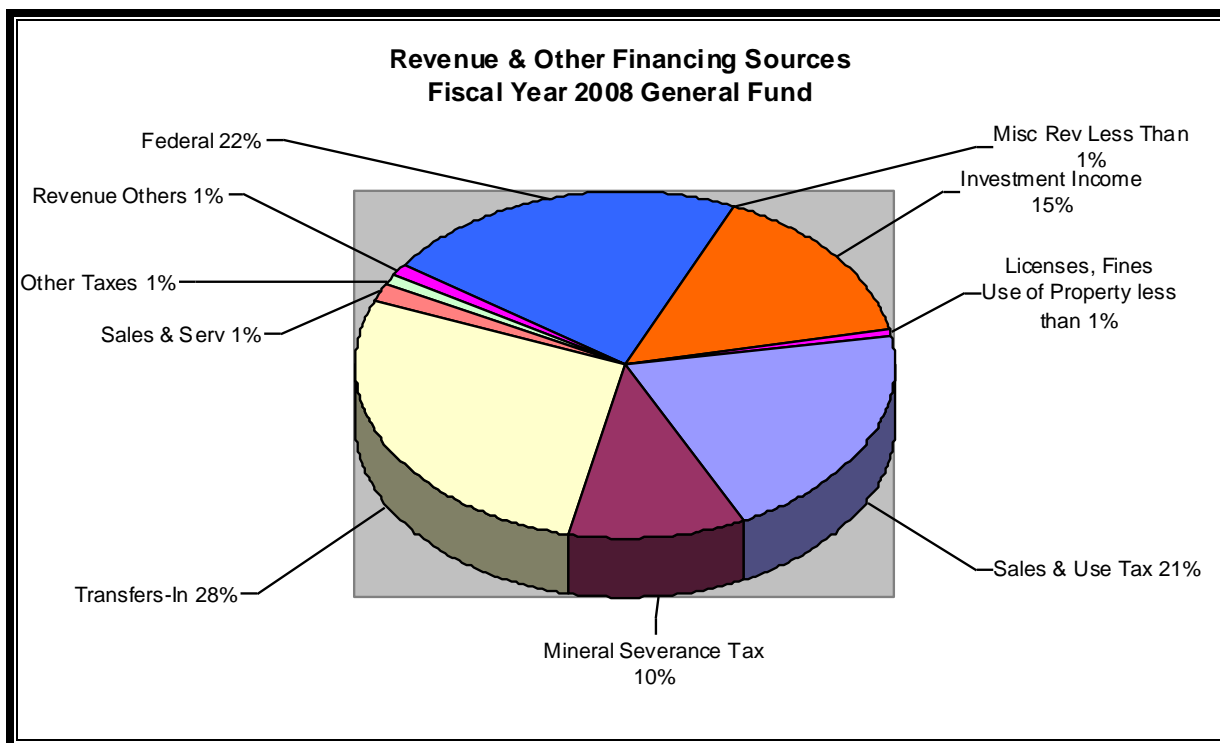
Unrestricted net assets of the enterprise funds as of June 30, 2008, totaled \$21.2 million. The major enterprise fund, the Worker's Compensation Fund, had net assets of \$142 million as of June 30, 2008, which is a \$73.1 million improvement over the prior year. This increase due to revenues primarily from charges for sales and service and investment income being sufficient to pay operating expenses including claims and benefits and produce this net increase.

General Fund Budgetary Highlights

The adjusted 2007-2008 Biennial Appropriations for the General Fund totaled \$4.7 billion. Budgetary changes to the General Fund for fiscal year 2008 totaled a net increase of \$239 million. The major increases are briefly summarized below:

- \$110 million Highway Construction (Transportation);
- \$32 million University of Wyoming Construction;
- \$33 million Wyoming Business Council (Employment, Economic Development and Commerce);
- \$53 million Federal Funds (across various programs);
- \$3 million Construction in Progress;
- \$4 million Western Wyoming College Dormitory Residence Hall;
- \$3 million Veterans Tax Exemption.

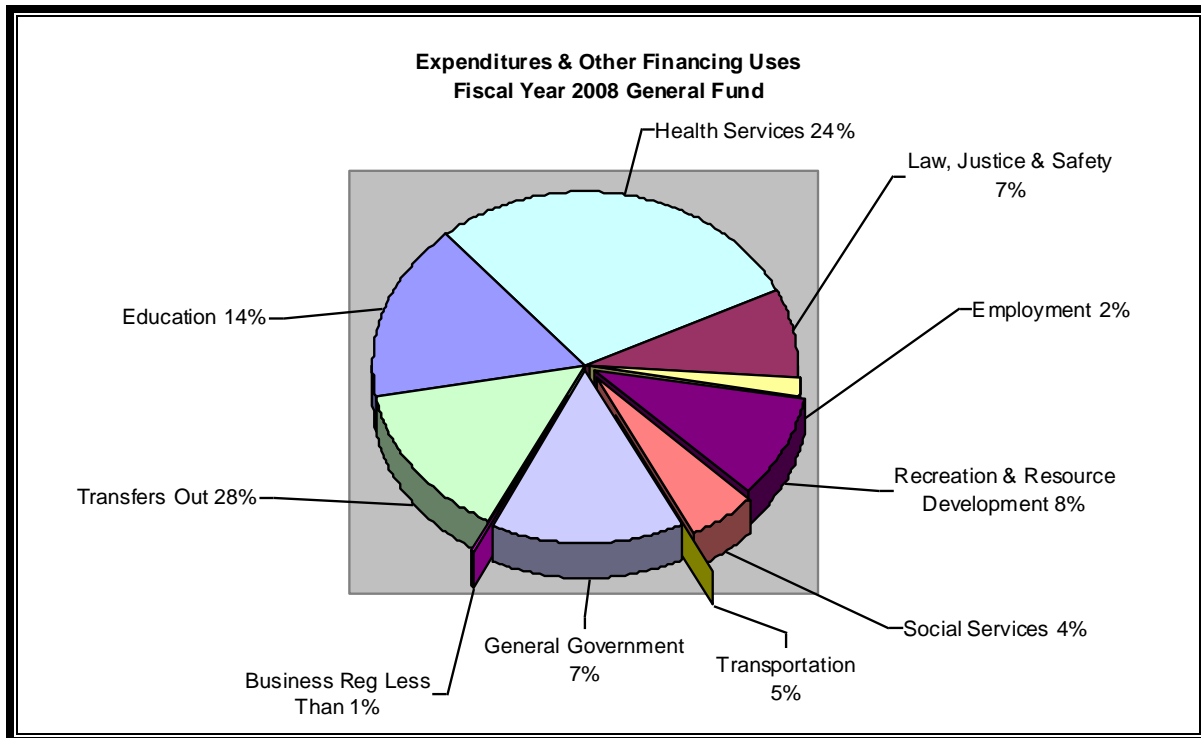
The total general fund revenues are presented in a pie chart below to display how sources relate to total revenue. The table on the following page shows the change in 2007 and 2008 revenue sources. On page 14, General Fund expenditures are similarly presented, depicting functions as they relate to total expenditures.



As shown in the table following, total Revenues decreased overall by \$484 million, with Other Financing Sources (transfers-in) decreasing 37% or \$426 million in fiscal year 2008. The General Fund saw an increase from mineral severance taxes and minor changes across the majority of the other revenue sources. Because of the interest earnings cap imposed by the Permanent Mineral Trust Reserve Fund (Spending Policy Reserve Fund), interest earnings of \$181 million originally transferred to the General Fund from the Permanent Mineral Trust Fund was transferred back to the spending policy reserve fund due to the earnings cap.

General Fund Revenue and Other Financing Sources for Fiscal Year Ended June 30, 2008				
	FY07	FY08	Increase (Decrease)	Percent Change
Taxes:				
Sales & Use	\$ 507,799,309	\$ 530,924,672	\$ 23,125,363	5%
Mineral Severance	214,195,441	253,634,701	39,439,260	18%
Other Taxes	30,844,715	27,131,325	(3,713,390)	-12%
Licenses and Permits	7,121,315	7,733,900	612,585	9%
Fines & Forfeitures	2,218,064	4,558,858	2,340,794	106%
Use of Property	6,376,143	3,948,472	(2,427,671)	-38%
Investment Income	469,182,014	387,252,587	(81,929,427)	-17%
Charges for Sales & Services	41,672,823	24,400,200	(17,272,623)	-41%
Revenue from Others	25,316,779	23,687,620	(1,629,159)	-6%
Federal	585,697,295	568,599,536	(17,097,759)	-3%
Miscellaneous Receipts	65,831	1,338,632	1,272,801	1933%
Federal Mineral Royalties	2,000,000	2,000,000	0	0%
Total Revenues	1,892,489,729	1,835,210,503	(57,279,226)	-3%
Other Financing Sources:				
Capital Leases	865,423	387,801	(477,622)	-55%
Transfers-In	1,146,564,237	720,622,368	(425,941,869)	-37%
Total Other Financing Sources	1,147,429,660	721,010,169	(426,419,491)	-37%
Total Revenue & Other Financing Sources	\$ 3,039,919,389	\$ 2,556,220,672	\$ (483,698,717)	-16%

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 2008 is the end of a biennium. As noted in the above table, transfers in for fiscal year 2008 show a decrease of 37 percent from 2007. This percentage decrease is a function of the 'budget balancer' transfers discussed above.



As shown in the table following, overall Expenditures increased by 34% or \$802 million, while Other Financing Uses increased by 159 percent or \$536 million in fiscal year 2008. General Government decreased its expenditures by \$93 million. A majority of this decrease to General Government expenditures was the result of recording securities lending expenditures on a gross basis for financial reporting purposes. While this added \$143 million to General Government expenditures year over year, it was \$71 million less than was recorded for fiscal year 2007.

Transportation expenditures increased \$111 million or 198 percent. This percentage increase is attributable to the State increasing their General Fund appropriations for highway maintenance. GAAP requires these transfers to a component unit be reclassified as expenditures in the primary government, rather than as a "transfer out."

Recreation & Resource Development increased \$45.6 million or 33 percent. This increase was largely attributable to increased funding to cities, towns and counties through legislatively directed payments utilizing specific formula distributions as well as providing funding for capital projects through an application process.

	FY07	FY08	Increase (Decrease)	Percent Change
General Government	\$ 332,147,341	\$ 239,241,876	\$ (92,905,465)	-28%
Business Regulation	7,581,622	9,413,446	1,831,824	24%
Education	373,334,406	431,565,472	58,231,066	16%
Health Services	664,911,556	766,635,001	101,723,445	15%
Law, Justice and Safety	193,736,842	207,832,337	14,095,495	7%
Employment	36,350,569	48,258,831	11,908,262	33%
Recreation & Resource Development	213,061,441	258,640,028	45,578,587	21%
Social Services	122,013,645	136,671,161	14,657,516	12%
Transportation	55,912,419	166,731,502	110,819,083	198%
Total Expenditures	1,999,049,841	2,264,989,654	265,939,813	13%
Other Financing Uses				
Transfers-Out	337,568,552	873,244,090	535,675,538	159%
Total Expenditures & Other Financing Uses	\$ 2,336,618,393	\$ 3,138,233,744	\$ 801,615,351	34%

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, 2008, amounts to \$473 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 major upgrade totaling approximately \$15 million is near completion at the close of the fiscal year.
- Architectural design and construction is continuing for the new Military Headquarters; \$140 million had been appropriated for the complete project, with expenditures totaling 5.4 million at the close of the fiscal year.
- Construction continues on the new prison in Torrington for the Department of Corrections construction in progress had reached approximately \$58.1 million.

More detailed information about the State's incomplete construction in progress is presented in Note 12 to the basic financial statements, on page 87.

At the end of the fiscal year 2008, the State had invested \$518 million, net of accumulated depreciation, in a broad range of capital assets (see the table below). The accumulated depreciation as of June 30, 2008, totaled \$329 million.

Capital Assets, Net of Depreciation for Fiscal Year Ended June 30, 2008								
	Governmental Activities		Business-Type Activities		2007		2008	
	2007	2008	2007	2008	Total Primary Government	Total Primary Government		
Land	\$ 24,521,122	\$ 48,822,100	\$ 0	\$ 0	\$ 24,521,122	\$ 48,822,100		
Buildings, structures, & improvements	264,976,127	256,705,601	0	0	264,976,127	256,705,601		
Equipment, furniture, & fixtures	60,933,229	60,920,934	3,999,057	2,707,358	64,932,286	63,628,292		
Capitalized leases	1,427,251	1,028,054	334,619	185,898	1,761,870	1,213,952		
Construction in progress	72,981,847	147,309,832	0	0	72,981,847	147,309,832		
Total	\$ 424,839,576	\$ 514,786,521	\$ 4,333,676	\$ 2,893,256	\$ 429,173,252	\$ 517,679,777		

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, 2007 and on pages 98-99 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 condition. In 2007, 96.4% of all NHS bridges were rated acceptable or above and 93.2% 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 2007, the National Highway System streets rated 3.46 and the non-national highway system rated 3.16.

Bonded debt.

The state did not issue any new debt for fiscal year 2008 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 \$43.9 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.

Additional information on the State of Wyoming's long-term debt can be found in Note 8 on pages 70-77 of this report.

Economic Outlook and Condition

National Economy

Nationally, a widening recession is threatening the United States, European and Asian economies. In September 2008 the current financial crisis began to engulf not only the U.S. economy but the global economy putting the US and global economies in an ever widening recession. The federal government responded with a \$700 billion bailout of financial and credit markets designed to prevent credit markets from seizing up. The auto industry's 'Big 3' are edging ever closer to the financial abyss unless the federal government can work some type of bailout. The stock market has lost some 40 percent of its value from Sept 2008 to November 2008. Individual pension plans such as 401ks, IRAs and Deferred Compensation Plans have been ravaged by the decline in stock values. Several states face budgetary shortfalls due to economic woes. The national unemployment rate has soared from 4.5% at June 30, 2007 to 6.5% the highest level since 1994.

Wyoming's Economy

According to a report on Wyoming's economy by First Interstate Bank, the state will experience slower growth in the second half of 2008 into 2009, but the state will continue to outperform the nation with stronger job growth and lower unemployment rates.

Wyoming is not suffering from the wave of housing foreclosures as reported in other sections of the country. Nationally, about 40% of the foreclosures are sub-prime related mortgages. In Wyoming, only three percent of mortgages are classified as sub-prime.

Wyoming added 10,000 new jobs in the past year. This year the increase is expected to be only 8,000. The report noted that, considering the rest of the US economy could be in a recession this is a pretty solid performance.

The following are excerpts from 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 2008, Wyoming's unemployment rate was 3.2 percent while June 2007 was 3.3%. This compares favorably with the 5.5% rate for the United States in June of 2008, which increased by a percentage point from its year ago mark of 4.5 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/>

Commodity prices continued to generate increased revenues for the State for fiscal year 2008. Oil prices reached an all time high of \$147/barrel in July 2008. These higher commodity prices also translated to higher transportation costs with gasoline hitting a high of \$4.14 per gallon. Increased food costs were also a byproduct of increased transportation costs. All this translated into an annual inflation rate for Wyoming of 7.49%. With commodity prices continuing to fall the price of a gallon of gas had fallen to \$1.43 as of December 5th, 2008.

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/>.