

**STATE OF WYOMING**

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**INTRODUCTORY  
SECTION**

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**For Fiscal Year Ended  
June 30, 2011**

## Cynthia I. Cloud, CPA, State Auditor

December 27, 2011

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TO: The Honorable Matthew H. Mead, Governor,  
Members of the Legislature, and the  
Citizens of the State of Wyoming:

It is my privilege to present the Comprehensive Annual Financial Report (CAFR) of the State of Wyoming as of and for the fiscal year ended June 30, 2011. State law (W.S. 9-1-403(a)(v)) requires that by December 15th every year the State Auditor provide annual financial statements prepared in conformance with generally accepted accounting principles (GAAP).

The CAFR is the primary means of reporting the State of Wyoming's financial activities. McGee, Hearne & Paiz, LLP, certified public accountants, has independently audited the State of Wyoming's financial statements. The independent audit is performed annually to provide reasonable assurance that the financial statements of the State of Wyoming are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the State of Wyoming's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the CAFR.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The CAFR consists of representations by the management of each State entity concerning the finances of the State of Wyoming. Responsibility for both the accuracy of the data and the completeness and reliability of the information, including all disclosures, rests with the State. To provide a reasonable basis for making these representations, the State has established an internal control framework that is designed both to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State of Wyoming's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the State's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. This is the established and accepted standard. The financial statements have been prepared primarily from accounts and records maintained by the State Auditor. To the best of my knowledge and belief, this financial report is complete and reliable in all material respects.

The independent audit of the financial statements of the State of Wyoming is part of a broader, federally mandated "single audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements involving the administration of federal awards. These reports are available in the State of Wyoming's separately issued Compliance Report.

## Profile of the Government

On July 10, 1890, the State of Wyoming, known as the 'Equality State,' was the 44th state admitted to the Union. Located in the Rocky Mountain section of the western United States, Wyoming is bounded on the north by Montana, on the east by South Dakota and Nebraska, on the south by Colorado and Utah, and on the west by Utah, Idaho and Montana. It is the ninth largest state in the United States, containing 97,914 square miles. The 2010 Census put Wyoming's population at 563,626. Wyoming is home to two of the country's foremost national parks, Yellowstone National Park and Grand Teton National Park, as well as the first designated national monument, Devil's Tower.

The executive branch of Wyoming government is comprised of a Governor, Secretary of State, State Auditor, State Treasurer, and the Superintendent of Public Instruction, all of whom are elected by statewide vote every four years. The legislative branch of government is comprised of 30 state senators and 60 state representatives. The term of office for senators is four years, 15 of the members being elected at a general election at which a President of the United States is elected, the balance at the next general election. The entire body of the House of Representatives is elected every two years for a two-year term.

The State of Wyoming provides a full range of services to its constituents. Under the Governor are fifteen Cabinet level departments: Administration and Information, Agriculture, Attorney General, Department of Audit, Corrections, Employment, Engineer, Environmental Quality, Family Services, Game and Fish, Health, Revenue, State Parks and Cultural Resources, Transportation, and Workforce Services. There are also 19 separate operating agencies and 13 licensing boards and commissions.

Among the 19 separate operating agencies are six entities which are legally separate but considered as component units of the State of Wyoming, as the State has significant operational and/or financial relationships with them. Six of the component units' financial data are reported in columns separate from the financial data of the primary government (the State). Those organizations are the University of Wyoming, Department of Transportation, Wyoming Community Development Authority, Wyoming Pipeline Authority, Wyoming Infrastructure Authority and Wyoming Business Council. Additional information on all six of these legally separate entities can be found in Note 1 in the notes to the financial statements.

## Budgetary Process

The biennial budget serves as the foundation for the State of Wyoming's financial planning and control. Wyoming statutes require the Governor to prepare and submit a biennial budget to the Legislature every even-numbered year. Budgets are prepared for a biennial period and are augmented, if necessary, with supplemental appropriations during the legislative sessions conducted in odd-numbered years. Budgets are adopted at the program level by agency. The Legislature may add, change, or delete any budget items proposed by the Governor. The Governor may authorize changes and revisions to approved budgets during the budget term, including increasing appropriations in the event of federal revenue above the initial budget approved by the Legislature. Budget-to-actual comparisons are provided in the CAFR for each individual governmental fund for which an appropriated biennial budget has been adopted. For the general fund, the foundation program fund and the American Recovery and Reinvestment Fund, this comparison is presented as part of the required supplementary information. For governmental funds other than the major funds, this comparison is presented in the supplementary information section of the CAFR.

## Long Term Financial Planning

The State of Wyoming incorporates revenue forecasting for two principal areas: general government operations and public school financing.

For general government the State utilizes the efforts of the Consensus Revenue Estimating Group (CREG). CREG was created by mutual informal agreement between the executive and legislative branches in 1983 as a result of the need for reliable and consistent revenue estimates which could be used by the executive branch and the Legislature in the budgeting process.

CREG is composed of members from various professional fields and governmental organizations, including legislative and executive branch representatives.

The CREG Report contains the following information:

- (i) Projections for major revenue sources to the General Fund are detailed including sales and use taxes, pooled interest, Permanent Wyoming Mineral Trust Fund interest, and severance taxes.
- (ii) The severance tax forecast details projected production, price and expected severance tax receipts for each major mineral and the report shows expected distributions of severance taxes to each fund or account that receives the taxes;
- (iii) The federal mineral royalty forecast also details projected production, price and expected royalties for oil, natural gas and coal and details the expected distribution of royalties to each fund or account that receives the royalties;
- (iv) The report also projects income derived from investment of the Common School Permanent Land Fund and projects total state assessed valuations to project the amount of revenue generated by the assessment of twelve mills to support education.

### **School Finance**

As a result of a Wyoming Supreme Court ruling in *Campbell County v. State* (Wyo. 1995), which directed the Legislature to define the proper combination of educational goods and services every child in Wyoming should receive. The State has embarked on a continuing process to determine the resources needed to provide that proper combination of educational goods and services and to ensure that school districts had adequate funding to provide those goods and services at the local level. This process has evolved to the present day funding model, which is recalibrated every five years.

The funding model consists of three major components:

1. Legislation enacting the model. This includes the statutory language to fund schools, and an appendix known, which outlines specific funding decisions made by the Legislature.
2. A set of linked worksheets which compute school and district funding allocations.
3. Additional worksheets developed by the Wyoming Department of Education to distribute funds to the school districts.

The State also has a legislatively approved plan for construction and major maintenance of state facilities, including those funded by the legislature for the University of Wyoming.

### **Major Initiatives**

**Education.** The Hathaway Scholarship Program. Hathaway scholarships are scholarships designed to provide an incentive for Wyoming students to prepare for and pursue postsecondary education within the State of Wyoming. The program consists of four separate merit scholarships, each with specific eligibility requirements, and a need-based scholarship for eligible students, which supplements the merit awards. Hathaway Merit Scholarships became available for eligible recipients beginning with the class of 2006 for the 2006 fall semester. Funding: 80% of the funds appropriated for the Hathaway Scholarship Program are for the Hathaway Merit Scholarships and 20% of the funds are for Hathaway Need-Based Scholarships. Hathaway scholarships are for attendance at the Wyoming postsecondary eligible institutions.

Hathaway scholarships are not entitlements, and are subject to legislative appropriation. The legislature has the authority to modify or terminate the Hathaway Scholarship Program at any time.

**Transportation.** The Wyoming Department of Transportation (WYDOT) has indicated it needs an additional \$135 million per year to maintain Wyoming roads in their current condition. The Joint Transportation, Highway and Military Affairs Interim Committee has been meeting throughout the summer holding public hearings gathering input in looking at alternative sources of revenue for WYDOT. At their October 2011 meeting the committee agreed to sponsor at least five measures designed to provide WYDOT additional revenue for highway maintenance. These measures are projected to provide WYDOT an estimated \$48 million more annually. These measures and others will be fully examined during the upcoming budget session beginning in February 2012.

**Capital Projects.** The State Building Commission along with the legislature is considering the construction of a new state office building comprising nearly 200,000 square feet, along with a project to do major renovations in the Capitol. Total project cost is estimated at \$160 million. The legislature appropriated \$400,000 for preliminary design work.

**Other Post Employment Benefits (OPEB). Implied Rate Subsidy Liability.** The State of Wyoming has reported the “implied rate subsidy” liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements. In this, the fourth year of implementation, the unfunded net OPEB obligation is \$48.9 million for the primary government.

The State will continue to fund the employee health insurance plan essentially on a “pay as you go” basis and does not intend to fund this liability. Because the State is not funding this liability, it will increase in 1/30<sup>th</sup> increments, plus interest and other actuarial adjustments, the financial statements will ultimately reflect a very large “implied rate subsidy” liability that does not have legal substance. The total actuarially accrued liability, which absent a change in position by GASB will be recorded in the State’s financial statements over the next 26 years is estimated to be \$238.8 million.

It should be noted that the legislature has authorized contributions based on years of service up to 30 years toward funding retiree health insurance. The contributions are \$11.50 per year of service for those under 65 and \$5.50 per year for those retirees 65 and over. The legislature appropriates approximately \$6 million dollars per biennium in general funds to assist in this program for those retirees retiring prior to June 30, 2008 and has authorized the assessment of 0.6% of eligible payroll for those active employees in the group health insurance plan. This assessment is transferred to a separate OPEB Fund. Because the fund does not meet certain criteria, actuarially the fund assets cannot be considered in developing the actuarial liability. At June 30, 2011 this fund had \$10.8 million in cash assets.

Certain states have requested a review by GASB of this provision, but to date GASB has refused to reconsider this issue. Wyoming has not requested this review.

### **State Economy**

Wyoming’s economic well-being continues to depend primarily on the mineral industry, revenues to the State of Wyoming come from severance taxes, ad valorem tax on real and personal property, federal mineral royalties from production on federal lands in Wyoming and sales and use taxes. Wyoming gets approximately 52 percent of its mineral severance tax from natural gas production.

According to economic analysis through the second quarter ending June 30, 2011, prepared by the Division of Economic Analysis (EA) of the Department of Administration and Information, the national economy was still experiencing weak domestic demand as well as economic and monetary issues facing the European Union. U.S. economic growth had come to a near standstill, with real gross domestic product growing at only 0.7 percent. Businesses had stopped hiring, households spending more tentatively and investors losing faith.

Continuing their analysis, Wyoming’s economy has continued turning positive since the beginning of 2010, thanks in large part to the energy sector. The unemployment rate had dropped to 5.9 percent, while the U.S unemployment rate was at 9.2 percent. Wyoming’s mining industry added 2,800 between the second quarter 2010 and the second quarter of 2011. Sales and use tax collections were up 8.6 percent compared to the second quarter of 2010.

At their October 2011 revenue forecast meeting the State’s revenue estimating group increased their revenue projections for the balance of the 2011-2012 biennium by \$237.5 million. This increase was principally driven by actual revenues received during fiscal year 2011. The majority of the increase came from capital gains income derived from the sale of equities in the State’s Permanent Mineral Trust Fund and Pooled income accounts. Including capital gains, investment income totaled \$306.5 million or \$126.4 million in excess of the January 2011 CREG projections.

For additional information the state of Wyoming’s economy the reader is directed to the Division of Economic Analysis (EA) of the Department of Administration and Information. Their web address is <http://eadiv.state.wy.us>.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Wyoming for its CAFR for the fiscal year ended June 30, 2010. This was the eleventh consecutive year and thirteen of the past fourteen years that the State has received this prestigious award. To be awarded a Certificate of Achievement, the State published an easily readable and efficiently organized CAFR. This report also satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid only for a one-year period. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR represents the responsibility of the State Auditor to give the citizens of Wyoming an accurate picture of the financial condition of their state government. Great strides have been made in the past few years to improve our State's accounting and financial reporting: implementation of GAAP, preparation of the CAFR, an independent audit of our financial statements, and implementation of various Governmental Accounting Standards Board (GASB) standards. All have contributed to better financial management. My appreciation goes out to the Legislature and our staff for making these improvements possible.

In conclusion, I believe this report provides information beneficial in evaluating the financial activity of the State of Wyoming. The State Auditor's Office would like to express our appreciation to the fiscal officers and staff throughout State government for their dedicated efforts in assisting us in the completion of this report.

I would also like to express my thanks to the dedicated staff within the State Auditor's Office, who continue to take great pride in this report. I am proud to have them on my team as we reaffirm our commitment to providing the citizens of Wyoming excellence in financial reporting.

Thank you!

Respectfully submitted,

A handwritten signature in black ink that reads "Cynthia Cloud". The signature is written in a cursive style with a large initial "C" and "C".

Cynthia I. Cloud, CPA  
State Auditor

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

State of Wyoming

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Dawson*

President

*Jeffrey R. Emer*

Executive Director

## **PRINCIPAL STATE OFFICIALS**

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## **EXECUTIVE BRANCH**

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**Matthew H. Mead, Governor**

**Max Maxfield, Secretary of State**

**Cynthia I. Cloud, CPA, Auditor**

**Joseph B. Meyer, Treasurer**

**Cindy Hill, Superintendent of Public Instruction**

