

**STATE OF WYOMING**

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**MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS**

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

## 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, 2011. 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-iv of this report.

### Financial Highlights

#### Government-Wide:

- The assets of the State of Wyoming exceeded its liabilities as of June 30, 2011 by \$14.2 billion (reported as net assets). This is an increase of \$2 billion from June 30, 2010. Of this amount, \$4.2 billion is unrestricted net assets that may be used to meet the government's ongoing obligations. Also, beginning net assets were restated by a net decrease of \$853,246. Component units reported net assets of \$7 billion.

#### Fund Level:

- As of June 30, 2011, the State of Wyoming's governmental funds reported combined ending fund balances of \$13.2 billion, an increase of \$1.8 billion.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$1.9 billion. The previously reported unreserved fund balance was \$149 million. The majority of the increase of \$1.75 billion is attributable to the inclusion of the Legislative Reserve Fund in the General Fund due to reclassification of implementing GASB Statement 54 under which those funds previously reported in the Legislative Reserve Fund no longer qualified as special revenue funds and therefore were included in the General Fund for financial reporting purposes.
- The enterprise funds reported net assets at year-end of \$293.3 million an increase of \$64.0 million from June 30, 2010. The majority of this increase was attributable to charges for sales and services up by nearly \$50 million coupled with claims and benefits payments down by nearly \$85 million. Most of this decrease in claim payments occurred in the Unemployment Trust Fund.

### 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 32 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 34-35 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.

**Fund financial statements.** The major fund financial statements begin on page 36 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 unassigned 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 37 and 39) 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 40-42 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 43-44 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 45-134 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 135-144 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 145-209 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 \$14.2 billion at the close of fiscal year 2011. This was an increase of \$2.0 billion. This increase was buoyed by steady albeit lower commodity prices, and investment returns which produced a year over year increase of \$262 million from investment income and change in fair value of investments.

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

| State of Wyoming's Net Assets<br>for Fiscal Year Ended June 30, 2011 |                            |                          |                             |                       |                             |                          |
|--|----------------------------|--------------------------|-----------------------------|-----------------------|-----------------------------|--------------------------|
|  | Governmental<br>Activities |                          | Business-Type<br>Activities |                       | Total Primary<br>Government |                          |
|  | 2010                       | 2011                     | 2010                        | 2011                  | 2010                        | 2011                     |
| Current assets   | \$ 15,736,161,417          | \$ 17,327,091,399        | \$ 1,981,889,516            | \$ 2,110,991,087      | \$ 17,718,050,933           | \$ 19,438,082,486        |
| Capital assets, net of<br>accumulated depreciation                   | 815,860,069                | 883,513,446              | 8,077,324                   | 10,681,090            | 823,937,393                 | 894,194,536              |
| <b>Total assets</b>  | <b>16,552,021,486</b>      | <b>18,210,604,845</b>    | <b>1,989,966,840</b>        | <b>2,121,672,177</b>  | <b>18,541,988,326</b>       | <b>20,332,277,022</b>    |
| Current liabilities  | 4,328,777,688              | 4,085,167,429            | 678,799,736                 | 611,757,270           | 5,007,610,079               | 4,696,924,699            |
| Long-term liabilities  | 223,825,036                | 194,272,265              | 1,081,936,242               | 1,216,604,644         | 1,305,761,278               | 1,410,876,909            |
| <b>Total liabilities</b>   | <b>4,552,602,724</b>       | <b>4,279,439,694</b>     | <b>1,760,735,978</b>        | <b>1,828,361,914</b>  | <b>6,313,371,357</b>        | <b>6,107,801,608</b>     |
| <b>Net assets:</b>   |                            |                          |                             |                       |                             |                          |
| Invested in capital assets,<br>net of related debt                   | 776,877,844                | 847,398,478              | 7,764,102                   | 10,478,136            | 784,641,946                 | 857,876,614              |
| Restricted   | 7,339,532,990              | 8,823,942,569            | 197,407,871                 | 255,533,175           | 7,536,940,861               | 9,079,475,744            |
| Unrestricted (deficit)   | 3,883,007,928              | 4,259,824,104            | 24,026,234                  | 27,298,952            | 3,907,034,162               | 4,287,123,056            |
| <b>Total net assets</b>  | <b>\$ 11,999,418,762</b>   | <b>\$ 13,931,165,151</b> | <b>\$ 229,198,207</b>       | <b>\$ 293,310,263</b> | <b>\$ 12,228,616,969</b>    | <b>\$ 14,224,475,414</b> |

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 \$857.8 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, \$9.1 billion, represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is \$4.3 billion.

The majority of the current assets of \$19.4 billion, consists of various cash and pooled investments of \$14.7 billion, and accounts receivable, due from other governments and loan receivables (including interest receivable) of \$2.6 billion. The remaining amount is comprised of other assets such as inventory and prepaid expenses.

The current liabilities of \$4.7 billion are comprised of various items: \$1.9 billion is related to liabilities under security lending; \$247 million is related to claims and benefits payable; \$2 billion is related to various accounts payable. The amount of unavailable revenue totaling \$292 million is attributable to property taxes and long term loans reserved. The amount due component units \$94.6 million, represents the unspent appropriations allocated to discreetly presented component units. The remaining amount of \$166.4 million is made up of compensated absences, current portion of bonds payable, and various other liabilities.

The majority of the long-term liabilities of \$1.4 billion is comprised of claims and benefits payable of \$1.3 billion, compensated absences of \$13.8 million and bonds payable of \$33.3 million. The State's estimated GASB 45 OPEB liability is \$48.9 million.

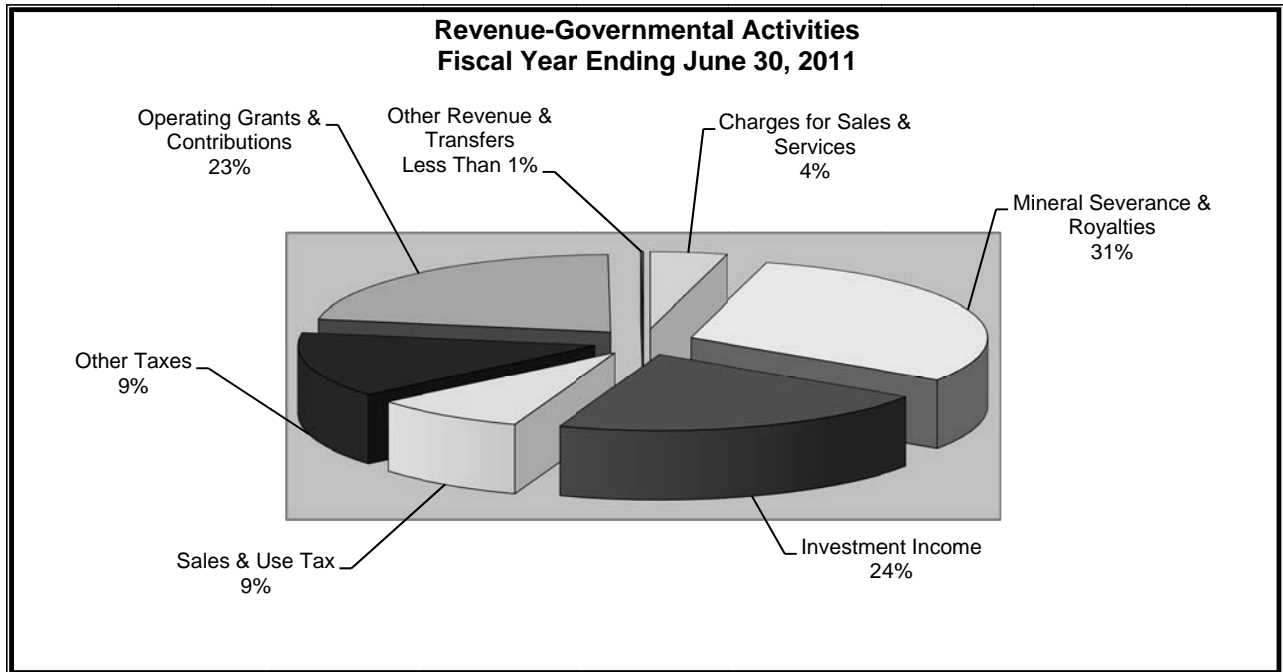
As of June 30, 2011 the State of Wyoming is able to report positive balances in all three categories of net assets for the government as a whole. The same situation held true for the prior fiscal year.

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:

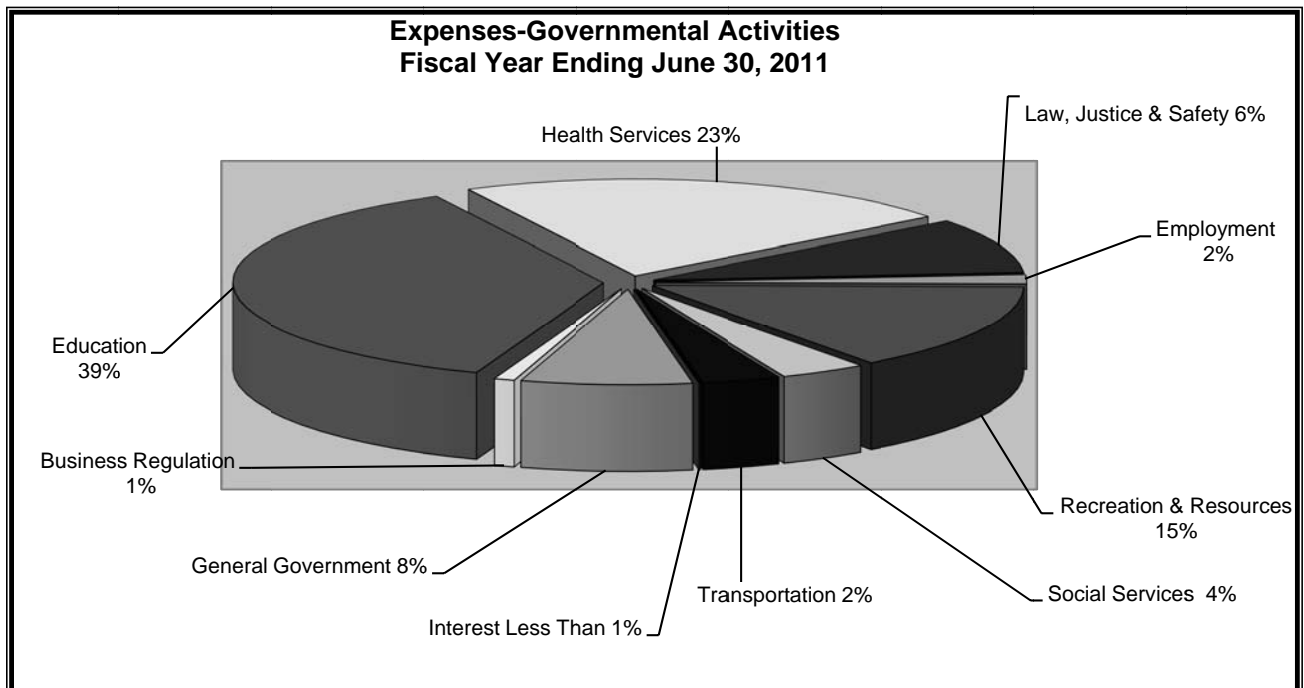
| State of Wyoming's Changes in Net Assets<br>for Fiscal Year Ended June 30, 2011<br>Statement of Activities |                            |                          |                             |                       |                          |                          |
|--|----------------------------|--------------------------|-----------------------------|-----------------------|--------------------------|--------------------------|
|  | Governmental<br>Activities |                          | Business-Type<br>Activities |                       | Total                    |                          |
|  | 2010                       | 2011                     | 2010                        | 2011                  | 2010                     | 2011                     |
| <b>Revenues:</b>   |                            |                          |                             |                       |                          |                          |
| <b>Program revenues:</b>   |                            |                          |                             |                       |                          |                          |
| Charges for services   | \$ 197,446,166             | \$ 242,977,850           | \$ 386,892,034              | \$ 437,664,620        | \$ 584,338,200           | \$ 680,642,470           |
| Operating grants   | 1,145,916,316              | 1,292,930,669            | 102,951,972                 | 81,041,285            | 1,248,868,288            | 1,373,971,954            |
| Capital grants and contributions   | 16,988,488                 | 28,991,784               | 0                           | 0                     | 16,988,488               | 28,991,784               |
| <b>General revenues:</b>   |                            |                          |                             |                       |                          |                          |
| Taxes  | 2,872,485,489              | 2,753,248,736            | 0                           | 0                     | 2,872,485,489            | 2,753,248,736            |
| Investment income  | 1,137,579,134              | 1,364,789,032            | 139,028,560                 | 173,149,981           | 1,276,607,694            | 1,537,939,013            |
|  |                            |                          | 0                           | 0                     |                          |                          |
| <b>Total revenues</b>  | <b>5,370,415,593</b>       | <b>5,682,938,071</b>     | <b>628,872,566</b>          | <b>691,855,886</b>    | <b>5,999,288,159</b>     | <b>6,374,793,957</b>     |
| <b>Expenses:</b>   |                            |                          |                             |                       |                          |                          |
| General government   | 251,898,109                | 309,564,320              | 0                           | 0                     | 251,898,109              | 309,564,320              |
| Business regulations   | 32,978,156                 | 48,725,889               | 0                           | 0                     | 32,978,156               | 48,725,889               |
| Education  | 1,387,461,384              | 1,455,793,128            | 0                           | 0                     | 1,387,461,384            | 1,455,793,128            |
| Health services  | 822,512,283                | 863,558,738              | 0                           | 0                     | 822,512,283              | 863,558,738              |
| Law, justice and safety  | 345,123,584                | 233,195,173              | 0                           | 0                     | 345,123,584              | 233,195,173              |
| Employment   | 56,863,708                 | 61,910,251               | 0                           | 0                     | 56,863,708               | 61,910,251               |
| Recreation and resource development  | 553,438,643                | 579,671,309              | 0                           | 0                     | 553,438,643              | 579,671,309              |
| Social services  | 139,061,992                | 150,153,471              | 0                           | 0                     | 139,061,992              | 150,153,471              |
| Transportation   | 128,182,011                | 57,648,565               | 0                           | 0                     | 128,182,011              | 57,648,565               |
| Interest   | 2,257,847                  | 1,971,607                | 0                           | 0                     | 2,257,847                | 1,971,607                |
| Workers' Compensation Insurance  | 0                          | 0                        | 324,793,767                 | 331,390,666           | 324,793,767              | 331,390,666              |
| Liquor Commission  | 0                          | 0                        | 71,872,201                  | 75,021,782            | 71,872,201               | 75,021,782               |
| Canteen Fund   | 0                          | 0                        | 1,611,814                   | 1,935,833             | 1,611,814                | 1,935,833                |
| Subsidence Insurance   | 0                          | 0                        | 156,703                     | 72,523                | 156,703                  | 72,523                   |
| Honor Farm Ag. sales   | 0                          | 0                        | 430,158                     | 386,713               | 430,158                  | 386,713                  |
| WY Health Insurance  | 0                          | 0                        | 22,461,821                  | 19,410,328            | 22,461,821               | 19,410,328               |
| Unemployment Compensation  | 0                          | 0                        | 275,448,594                 | 187,671,970           | 275,448,594              | 187,671,970              |
| <b>Total expenses</b>  | <b>3,719,777,717</b>       | <b>3,762,192,451</b>     | <b>696,775,058</b>          | <b>615,889,815</b>    | <b>4,416,552,775</b>     | <b>4,378,082,266</b>     |
| Increase (decrease) in net assets before transfers   | 1,650,637,876              | 1,920,745,620            | (67,902,492)                | 75,966,071            | 1,582,735,384            | 1,996,711,691            |
| Transfers  | 7,860,946                  | 11,969,140               | (7,860,946)                 | (11,969,140)          | 0                        | 0                        |
| Increase (decrease) in net assets  | 1,658,498,822              | 1,932,714,760            | (75,763,438)                | 63,996,931            | 1,582,735,384            | 1,996,711,691            |
| Net assets beginning   | 10,298,312,210             | 11,999,418,762           | 304,961,645                 | 229,198,207           | 10,603,273,855           | 12,228,616,969           |
| Prior Period Adjustment (Footnote 1(G))  | 42,607,730                 | (968,371)                | 0                           | 115,125               | 42,607,730               | (853,246)                |
| Net assets beginning restated  | 10,340,919,940             | 11,998,450,391           | 304,961,645                 | 229,313,332           | 10,645,881,585           | 12,227,763,723           |
| <b>Net assets ending</b>   | <b>\$ 11,999,418,762</b>   | <b>\$ 13,931,165,151</b> | <b>\$ 229,198,207</b>       | <b>\$ 293,310,263</b> | <b>\$ 12,228,616,969</b> | <b>\$ 14,224,475,414</b> |

The increase in net assets related to governmental activities for the State of Wyoming was \$2.0 billion during the current fiscal year. This increase is attributable to declining but steady commodity prices resulting in better than expected revenues, better than expected investment earnings aided by actual investment earnings of \$305 million, which exceeded projections by \$126 million.

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 \$63.9 million during the fiscal year. This majority of this increase was driven by a decrease of expenditures for the Unemployment Trust Fund, which decreased by \$87 million. Additionally, charges for sales and services increased overall for this group by \$51 million, while operating grants and contributions decreased by \$20 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, *unassigned 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, 2011, the State of Wyoming's governmental funds reported combined ending fund balances of \$13.2 billion, an increase of \$1.8 billion. Of this total fund balance, \$8.2 billion, is classified within the permanent funds as nonexpendable corpus. Fiscal year 2011 marked the first year of implementing GASB Statement 54. This statement created a new fund balance hierarchy. The classifications of this new hierarchy are: nonspendable, restricted, committed, assigned and unassigned. These classifications are further discussed in Note 1 (G) and Note 12.

**General Fund.** The general fund is the chief operating fund of the State of Wyoming. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1.9 billion, while total fund balance was \$2.2 billion. The net change in fund balance for 2011 in the general fund was a \$370 million increase. There was a prior period adjustment restating beginning fund balance by an increase of \$1.4 billion. This prior period adjustment is related to the implementation of GASB Statement 54. The majority of the unassigned fund balance of \$1.9 billion is attributable to moving the Legislative Reserve Fund to the General Fund. This movement was required by GASB 54 as the Legislative Reserve Fund no longer met the requirements of a special revenue fund. A more detailed comparative analysis of the activity for the General Fund can be found on pages 25-28, of this MD&A. The State Auditor is required by statute to sweep any positive unappropriated fund balance at the end of a biennium to the Legislative Stabilization Fund. Because this fund is now part of the General Fund for financial reporting purposes, these transfers will be eliminated for financial reporting purposes.

**Foundation Program Fund.** The restricted fund balance at June 30, 2011 totaled \$138.4 million, a net decrease in fund balance of \$32 million. This fund carries a legislative restriction on its unobligated, unencumbered fund balance which states it shall not exceed \$100 million. For fiscal year 2011 and the biennium ending June 30, 2012, the restricted fund balance in excess of \$100 million is to be transferred to the School Capital Construction Fund. The amount of this sweep in excess of \$100 million for fiscal year 2011 was \$250.6 million. For fiscal year 2011 the excess is to be transferred to the School Capital Construction Fund.

**Legislative Reserve Fund.** For financial reporting purposes, this fund is now reported in the General Fund. The funds included in this financial reporting fund class did not meet the criteria of a special revenue fund as set forth in GASB 54. The budget reserve fund and the legislative stabilization fund were the principal funds in this reporting fund class comprising an additional \$1.2 billion in unassigned fund balance to the general fund. The other principal funds in this fund class moved to the general fund were the capital restoration fund and the spending policy funds for the permanent mineral trust fund and common school land fund.

**Common School Land Fund.** As of June 30, 2011, this fund balance totaled \$2.4 billion, of which, \$2.4 billion is in the non-spendable-corpus portion of fund balance. This is a net increase in non-spendable fund balance of \$333.6 million for the year. The majority of this change is attributable to an overall increase in revenues of \$185 million and a change in liabilities of \$83 million.

**Permanent Mineral Trust Fund.** Non-spendable-corpus fund balance at June 30, 2011, totaled \$5.3 billion, a net increase in non-spendable corpus fund balance of \$830.8 million for the year. Nearly \$300 of this increase is accounted for in part from an increase in mineral severance taxes (\$88 million), which is a result of increased mineral production, (\$151) from the change in market value of permanent mineral trust fund portfolio and (\$35 million) from the earnings cap of the spending policy fund.

**American Recovery and Reinvestment Fund.** As of June 30, 2011, its committed fund balance was zero a net decrease of \$10.3 million. This fund is used to account for most federal stimulus funding received, except those received for highway infrastructure and for the University of Wyoming. There are some formula driven stimulus funds that are not accounted for in this fund such as those received by the Supplemental Nutrition Program (SNAP). The reduction in fund balance is also a reflection of the stimulus funding beginning to phase out.

**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.

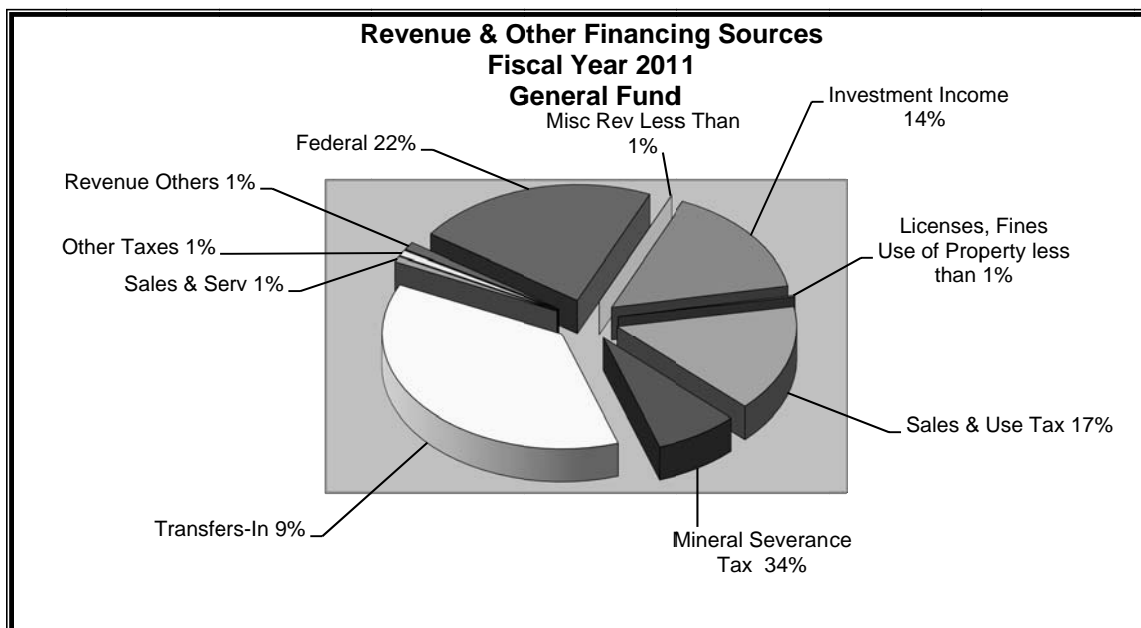
The enterprise funds reported net assets at year-end of \$293.3 million an increase of \$63.9 million from June 30, 2010. The majority of this increase was attributable to charges for sales and services up by nearly \$50 million coupled with claims and benefits payments down by nearly \$85 million. Most of this decrease in claim payments occurred in the Unemployment Trust Fund.

**General Fund Budgetary Highlights**

The 2011-2012 Biennial Appropriations for the General Fund totaled \$4.7 billion. Major budgetary items are briefly summarized below:

- \$66 million Highway construction;
- \$368 million University of Wyoming;
- \$251 million Community Colleges;
- \$1.4 billion in federal funds across various programs;
- \$77.6 million economic development;
- \$32.6 million Construction in Progress;
- \$26 million for major maintenance;
- \$836 million for health programs;
- \$166 million for social services programs;
- \$210 million for natural resource programs;
- \$158.7 million for general government;

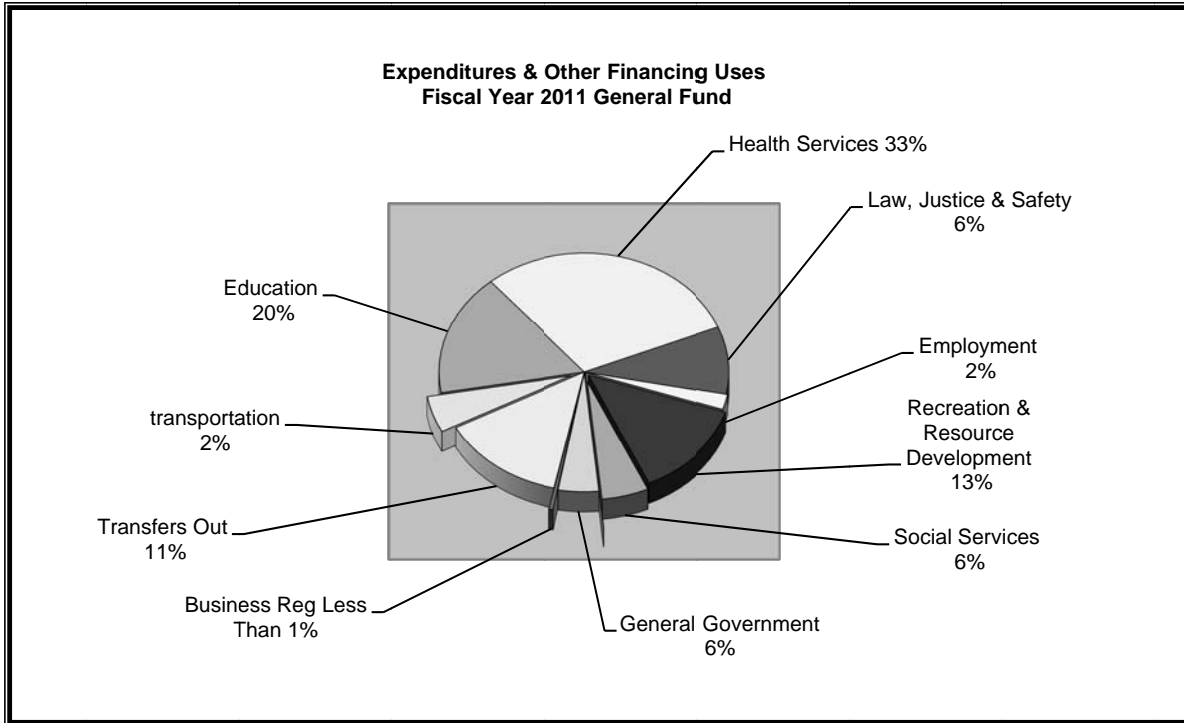
The total general fund revenues are presented in a pie chart below to display how sources relate to total revenue. The table on the following page shows the change in 2010 and 2011 revenue sources. On page 26, General Fund expenditures are similarly presented, depicting functions as they relate to total expenditures.



As shown in the table following, total Revenues increased overall by \$747.8 million, with Other Financing Sources (transfers-in) decreasing 76% or \$826.7 million in fiscal year 2011. Both the revenue increase and the Other Financing Sources decrease are attributable to the implementation of GASB Statement 54. For both mineral severance tax and federal mineral royalties the increases shown are due to the inclusion of the budget reserve fund in the general fund for financial reporting purposes. The budget reserve fund did not meet the criteria for a special revenue fund set forth in GASB Statement 54.

| <b>General Fund Revenue and Other Financing Sources<br/>for Fiscal Year Ended June 30, 2011</b> |                         |                         |                        |                   |
|---|-------------------------|-------------------------|------------------------|-------------------|
|   | FY10                    | FY11                    | Increase<br>(Decrease) | Percent<br>Change |
| <b>Taxes:</b>   |                         |                         |                        |                   |
| Sales & Use   | \$ 442,823,944          | \$ 494,496,404          | \$ 51,672,460          | 12%               |
| Mineral Severance   | 221,228,314             | 494,963,427             | 273,735,113            | 124%              |
| Other Taxes   | 23,833,362              | 23,210,774              | (622,588)              | -3%               |
| Licenses and Permits  | 7,833,063               | 8,470,035               | 636,972                | 8%                |
| Fines & Forfeitures   | 5,126,345               | 5,443,017               | 316,672                | 6%                |
| Use of Property   | 6,439,376               | 15,616,620              | 9,177,244              | 143%              |
| Investment Income   | 452,147,329             | 411,175,858             | (40,971,471)           | -9%               |
| Charges for Sales & Services  | 21,994,547              | 31,951,274              | 9,956,727              | 45%               |
| Revenue from Others   | 32,322,799              | 29,691,960              | (2,630,839)            | -8%               |
| Federal   | 641,037,374             | 622,527,031             | (18,510,343)           | -3%               |
| Miscellaneous Receipts  | 0                       | 409,072                 | 409,072                | 100%              |
| Federal Mineral Royalties   | 2,000,000               | 466,602,075             | 464,602,075            | 23230%            |
| <b>Total Revenues</b>   | <u>1,856,786,453</u>    | <u>2,604,557,547</u>    | <u>747,771,094</u>     | 40%               |
| <b>Other Financing Sources:</b>   |                         |                         |                        |                   |
| Capital Leases  | 131,883                 | 125,132                 | (6,751)                | -5%               |
| Transfers-In  | 1,087,284,228           | 260,620,930             | (826,663,298)          | -76%              |
| Total Other Financing Sources   | <u>1,087,416,111</u>    | <u>260,746,062</u>      | <u>(826,670,049)</u>   | -76%              |
| <b>Total Revenue &amp;<br/>Other Financing Sources</b>  | <u>\$ 2,944,202,564</u> | <u>\$ 2,865,303,609</u> | <u>\$ (78,898,955)</u> | -3%               |

The decrease in transfers-in can similarly be attributed to the inclusion of the budget reserve fund in the general fund for financial reporting purposes. The transfers previously reported as transfers-in from the budget reserve fund have now been eliminated as part of the combining process. The amount eliminated was \$481 million.



As shown in the table following, overall Expenditures decreased by one percent or \$12.6 million, while Other Financing Uses decreased by 44 percent or \$215.6 million in fiscal year 2011. General Government increased by 19 percent or \$22 million. No one particular item accounts for the overall increase.

The decrease of 35 percent in law, safety and justice, reflects a decrease in expenditures due to fewer start up costs for the new medium security prison now online and for start-up costs associated with the Adjutant General bringing three major facilities online. The change in other financing sources (transfers out) is a function of implementing GASB 54. GASB 54 required the State for financial reporting purposes to include the budget reserve fund in the general fund. This is because the budget reserve fund no longer qualified as a special revenue fund. The transfers previously reported as transfers-out from the general fund to the budget reserve fund have now been eliminated as part of the combining process. The amount eliminated was \$130.4 million.

| General Fund Expenditures and Other Financing Sources<br>for Fiscal Year Ended June 30, 2011 |                         |                         |                         |                   |  |
|--|-------------------------|-------------------------|-------------------------|-------------------|--|
|  | FY10                    | FY11                    | Increase<br>(Decrease)  | Percent<br>Change |  |
| General Government   | \$ 116,015,488          | \$ 138,060,847          | \$ 22,045,359           | 19%               |  |
| Business Regulation  | 12,143,857              | 15,267,840              | 3,123,983               | 26%               |  |
| Education  | 428,852,778             | 486,590,099             | 57,737,321              | 13%               |  |
| Health Services  | 778,653,669             | 830,748,491             | 52,094,822              | 7%                |  |
| Law, Justice and Safety  | 241,166,879             | 156,422,324             | (84,744,555)            | -35%              |  |
| Employment   | 53,876,429              | 59,803,395              | 5,926,966               | 11%               |  |
| Recreation & Resource Development  | 337,848,222             | 322,362,303             | (15,485,919)            | -5%               |  |
| Social Services  | 134,208,672             | 151,428,667             | 17,219,995              | 13%               |  |
| Transportation   | 128,182,011             | 57,648,565              | (70,533,446)            | -55%              |  |
| <b>Total Expenditures</b>  | <u>2,230,948,005</u>    | <u>2,218,332,531</u>    | <u>(12,615,474)</u>     | -1%               |  |
| Other Financing Uses   |                         |                         |                         |                   |  |
| Transfers-Out  | <u>492,673,045</u>      | <u>277,045,221</u>      | <u>(215,627,824)</u>    | -44%              |  |
| <b>Total Expenditures &amp;<br/>Other Financing Uses</b>                                     | <u>\$ 2,723,621,050</u> | <u>\$ 2,495,377,752</u> | <u>\$ (228,243,298)</u> | -8%               |  |

## 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, 2011, amounts to \$858 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, intangibles, and park facilities.

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

- Purchase of building and property for new Liquor Commission Warehouse – \$6.5 million.
- Game and Fish Speas and Story Hatchery renovations - \$14.7 million.
- Purchase of Game and Fish Easements - \$1.9 million.
- Military Department - Wheatland and Gillette Armory renovations - \$5.7 million.
- Completion of Military Camp Guernsey Multi-Purpose Machine Gun Training Range - \$1.8 million.
- Purchase of Military Department Land - \$8.2 million.
- Internally Generated Software Projects for various agencies - \$33.6 million.

More detailed information about the State's incomplete construction in progress is presented in Note 13 to the basic financial statements, on page 128.

At the end of the fiscal year 2011, the State had invested \$894.2 million, net of accumulated depreciation, in a broad range of capital assets (see the table below). The accumulated depreciation as of June 30, 2011, totaled \$435.7 million.

| Capital Assets, Net of Depreciation<br>for Fiscal Year Ended June 30, 2011 |                         |                       |                          |                      |                       |                       |
|--|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
|  | Governmental Activities |                       | Business-Type Activities |                      | 2010                  | 2011                  |
|  | Restated (Note 1 (G))   |                       | 2010                     | 2011                 | Total Primary         | Total Primary         |
|  | 2010                    | 2011                  |                          |                      | Government            | Government            |
| Land   | \$ 56,592,849           | \$ 65,454,067         | \$ 0                     | \$ 0                 | \$ 56,592,849         | \$ 65,454,067         |
| Intangibles - non depreciable  | 24,426,373              | 26,748,870            | 0                        | 0                    | 24,426,373            | 26,748,870            |
| Construction in progress   | 182,794,010             | 75,410,128            | 5,906,100                | 9,263,931            | 188,700,110           | 84,674,059            |
| Land Improvements  | 0                       | 1,733,055             | 0                        | 0                    | 0                     | 1,733,055             |
| Buildings and improvements   | 438,348,987             | 590,161,456           | 0                        | 0                    | 438,348,987           | 590,161,456           |
| Equipment, furniture, & fixture  | 42,626,258              | 37,649,342            | 1,842,367                | 1,234,206            | 44,468,625            | 38,883,548            |
| Vehicles   | 20,173,892              | 20,500,024            | 2,245                    | 298                  | 20,176,137            | 20,500,322            |
| Infrastructure   | 24,228,899              | 37,961,847            | 0                        | 0                    | 24,228,899            | 37,961,847            |
| Intangibles - depreciable  | 26,668,800              | 27,894,657            | 326,612                  | 182,655              | 26,995,412            | 28,077,312            |
| Total  | <u>\$ 815,860,068</u>   | <u>\$ 883,513,446</u> | <u>\$ 8,077,324</u>      | <u>\$ 10,681,090</u> | <u>\$ 823,937,392</u> | <u>\$ 894,194,536</u> |

Additional information on the State of Wyoming's capital assets can be found in Note 5 on pages 85-91 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, 2010 and on pages 129 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 2010, 95% of all NHS bridges were rated acceptable or above and 93.7% 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 3.00, on a 0-5 point scale. In 2010, the National Highway System streets rated 3.48 and the non-national highway system rated 3.19.

### **Bonded debt**

The state did not issue any new debt for fiscal year 2011 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 \$35.9 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 94-112 of this report.

### **Economic Outlook and Condition**

#### **National Economy**

For the second quarter of 2011, which is the State's fiscal year end, the national economy grew only 0.7 percent for the first half of 2011 but there was consensus that the economic numbers do not point to another recession. Cutbacks by cash strapped state and local governments helped restrict economic growth to these anemic levels. States had been able to delay cutbacks due to the stimulus monies provided by the American Recovery and Reinvestment Act (ARRA), but that money has been spent. Now governments are reducing expenditures and raising taxes. The pace of state and local government spending has declined for seven of the last eight quarters and according to most economists not likely to improve anytime soon. Some see an upside to the cutbacks in that "State and local governments are getting themselves into a healthier position and may not necessarily be the drag on economic growth that they have been".

The November national unemployment rate fell below 9 percent for the first time in calendar year 2011. The unemployment rate was at 8.6 percent compared to 9.1 percent as of June 30, 2010. The decrease in unemployment is mainly attributable to those who cannot find work and have quit looking, as well as seasonal employment for the holiday season.

The other major factor weighing significantly on the national economy is the European debt crisis. The principal issues for Europe are threefold according to Keith Hennessey of the Stanford Hoover Institute. Those three issues are: 1. A national debt crisis in several European countries; 2. A structural crisis of the Eurozone; and 3. A potential banking crisis in Europe and the U.S.

According to Hennessey, there is a national budget crisis in several European countries. Those countries Portugal, Ireland, Italy, Greece and Spain have had trouble issuing government bonds at a sustainably affordable interest rate. Each of these countries have some combination of unsustainably high budget deficits, high government debt and weak economic growth. As a result investors worry that if they loan money it will not be paid back in full nor on time. The worrisome issues for the U.S., according to Hennessey is that should Europe as a whole go into a deep recession, or if European debt problems cause a banking crisis that spreads to the U.S, which may be worse than the financial crisis of 2008.

#### **Wyoming's Economy**

It is no secret that Wyoming has the least diversified economy of the 50 states. Wyoming is dependent on the revenues and the employment from the extraction industry. This revenue drives the major state revenues of mineral severance taxes, interest from the Permanent Mineral Trust Fund, mining employment drives related sales and use tax collections, a gross products tax levied on mineral production and federal mineral royalties. These revenues continue to play an ever increasing role in the funding of general operations of state government, for city, town and county government for primary and secondary education and for school and general capital construction.

Wyoming's economy received a boost from where else, but the extraction industry. This industry added 2,800 jobs between the second quarter 2010 and the second quarter of 2011. By products of this activity were the unemployment fell to 5.9 percent as of fiscal year end, sales tax collections were up 8.6 percent compared to the second quarter of 2010 and mineral severance taxes and federal mineral royalties were also above projections.

New mining technology has provided some opportunity to access oil deposits in what is known as the Niobrara formation. But because of the nature of drilling for this resource, experts in the business are saying it will develop more slowly and its impact will be more gradual than other energy booms of Wyoming's energy development history.

CREG revenue projections for the 2013-2014 biennium were reduced by approximately \$52 million in the October 2011 CREG meeting. This projection of flat or somewhat declining revenues has caused both the Governor and Joint Appropriations Committee (JAC) to look at possible budget reductions ranging from the Governor's proposed two percent to the JAC's proposed five to eight percent reductions, as they begin deliberations to build a 2013-2014 biennial budget.

### **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/>.