

DAVID G. FERRARI, State Auditor

SEPTEMBER 30, 1992

Capitol Building
Cheyenne, Wyoming 82002
307/777-7831**TO THE CITIZENS,
GOVERNOR AND MEMBERS
OF THE LEGISLATURE OF
THE STATE OF WYOMING**

In accordance with W.S. 9-1-403(a)(v), I am pleased to present this Annual Financial Report of the State of Wyoming for the fiscal year ended June 30, 1992. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the office of the State Auditor. The financial statements have been prepared on the cash basis of accounting with certain exceptions. Certain revenue and the related assets are recognized when received rather than earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. In addition, fixed assets are recorded as expenditures when paid in all funds and are not maintained as assets in the accounting system. Thus, although this report has been prepared following the specific format as dictated by generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB), the financial statements are not intended to conform with GAAP.

The general purpose financial statements contained in this report have not been audited. In our annual financial report last year, it was noted that Wyoming's financial statements should be audited annually by an independent certified public accounting (CPA) firm, in order to comply with generally accepted accounting and auditing standards. As a first step, a CPA firm has been engaged to audit the State's internal controls. This effort will be completed prior to convention of the 1993 Legislative Session. Contingent on legislative approval and funding, a full audit of the financial statements will be conducted on the Fiscal Year 1993 financial statements. The combination of these two outside independent audit efforts will provide assurance to Wyoming citizens that the State's financial house is in order and it will be only the second time in the State's 101 year history that such assurance has been provided Wyoming taxpayers.

The Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter and the State's organizational chart. The Financial Section includes the general purpose financial statements and the combining statements and schedules. The Statistical Section includes fiscal, social and demographic information about Wyoming.

After previously reporting seven consecutive years of General Fund operating deficits of revenue over expenditures, totalling \$337.3 million, we now report that Fiscal Year 1992 departed from this trend. Revenues, last year, totalled \$388.4 million, while expenditures were \$382.7 million; a \$5.7 million excess. However, this is not an improvement in fiscal conditions, but rather is due to improvements which were made in the State's accounting procedures. Pooled interest earnings which were previously transferred to the General Fund twice a year, in January and July, are now transferred monthly. Had this change not been implemented, total General Fund revenue would have actually been about \$17.2 million less, resulting in yet another year in which expenditures exceeded revenues. Thus, the eight year deficit of General Fund revenue over expenditures would have increased by roughly \$11.5 million, bringing the total to \$348.8 million, or an annual average of \$43.6 million.

This huge General Fund shortfall has been addressed over the years through diversion of funds from other sources, e.g., redirecting pooled interest earnings from several other funds to the General Fund and, diverting severance taxes from the Permanent Wyoming Mineral Trust Fund (PWMTF) to the Budget Revenue Account. Unfortunately, such diversions cannot continue, as the same relationship between insufficient revenue to meet expenditures has been occurring in all general governmental funds, as again noted in the combining statements of this report.

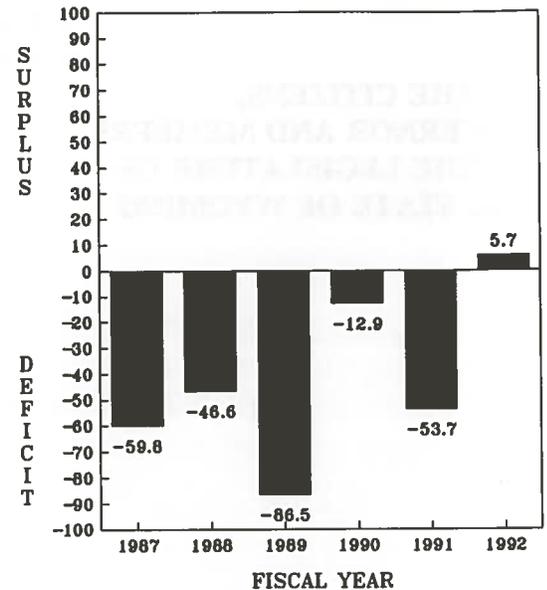
PERFORMANCE MEASUREMENTS AND PROGRAM EVALUATIONS

It has been said that when Columbus discovered America, he started out not knowing where he was going, not knowing how long it would take to get there, and once arrived, not knowing where he had been. Although one can't argue with the end result of his journey, the voyage along the way was in all probability, unnecessarily uncertain, consistently confusing and frequently frustrating. It in all likelihood was exceedingly expensive, as well. In government, as in sailing, it is impossible to chart a course, if you do not know where you are going.

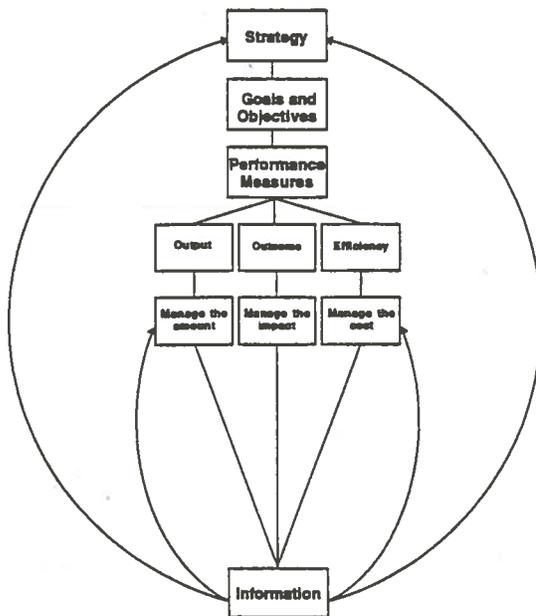
Last year, we reported that one of our highest priorities ought to be an expansion of the Performance Audit Program in the Legislative Service Office (LSO). Such a program would at least tell us where we have been. I again urge the Legislature to begin this process immediately. But, just knowing where we've been isn't enough in these times of huge revenue shortfalls and expenditure levels which are way beyond our current means. We've got to know where we are going in each of our programs. Public entities can no longer

GENERAL FUND
DEFICIT/SURPLUS OF
REVENUE OVER EXPENDITURES

\$ MILLIONS



just be accountable for how much and on what they spend the taxpayers' money. The public and government policy makers want to know what the goals and objectives are and what is the citizenry getting for the use of public funds; how efficiently and effectively are these funds being used by State agencies? The pressure to hold government accountable for its performance is very clear and the pressure to maximize this performance is increasing. This is neither unexpected nor unreasonable as we consider whether or not to impose higher taxes on the citizenry. The use of performance measures is one way to define our expectations of each program outlay and to gauge what the public gets for its money. Performance measures reporting provides program and agency management with information needed to improve the services and products they provide and it informs government leaders about the effectiveness and efficiency of government programs.



Using performance measures for government is a relatively new development in a way of thinking about management that began with theories developed by Wyoming's own Dr. W. Edward Deming. It has been applied around the world and in other states. It works. And, it's time to begin this process in Wyoming. For too long, we have largely failed to go through a strategic planning process that will produce well-defined goals and objectives. And, in the isolated cases where such goals and objectives are defined, we have neglected to measure our progress on fulfilling them, so that judgements can be made about our success and changes or adjustments can be made in our efforts to attain them. In other words, we have been spending too much time sailing and not enough time charting our course. We need to abandon the Columbus approach to government and adopt the Deming approach.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Since assuming office on January 7, 1991, I have recommended to the Governor and Legislature that the State of Wyoming should comply with GAAP. Several steps have been taken in planning the transition from our current system of accounting to full GAAP compliance by the end of Fiscal Year 1994: Professional staff, familiar with GAAP have been hired, in replacement of retiring or resigning employees; changes have been implemented to more closely match revenues and expenditures in the same fiscal period; the new accounting system (WIN) was implemented on July 1, 1991, and is now being modified to enable GAAP compliance; and, detailed plans are being formulated to define all of the actions which will be required between now and June 30, 1994, to assure GAAP compliance.

These improvements in management of the State's accounting, have already paid huge dividends to the people of Wyoming. Last year, more timely recording of revenues resulted in an estimated one-time increase of pooled interest to the General Fund of \$17.2 million. Changes are planned for implementation on June 30, 1994, which will result in other one-time revenue increases totalling an estimated \$183.2 million. These will be partially off-set by the accrual of expenditures, but the net benefit is expected to exceed \$150 million during the 1993-94 biennium.

In order to facilitate full GAAP compliance and financial reporting by the targeted date of June 30, 1994, the 1993 Legislature will be asked to consider legislation, the Wyoming GAAP Accounting Act, which will streamline the State's fund structure, mandate the accruals of revenue and expenditures, and authorize further refinement and enhancement of the State's financial accounting systems. I urge support of this legislation.

ECONOMIC OUTLOOK

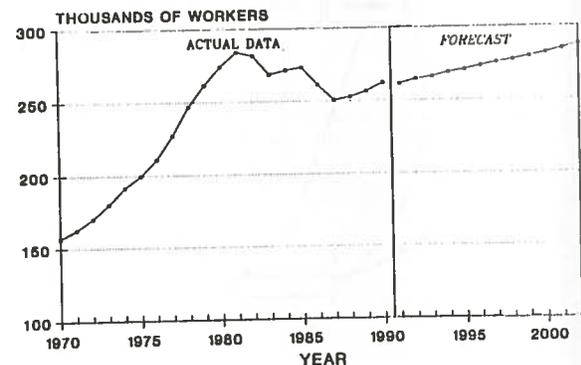
Last year, the Division of Economic Analysis of the Department of Administration and Information forecasted an employment growth of 37,860 jobs between 1991 and 2001, an average growth of 1.3 percent. As discouraging as that forecast was, it is now even worse. The agency now says that total employment will reach 287,650 jobs by the year 2002, an increase of only 25,660 jobs, or an annual average of 0.9 percent.

While employment in most sectors in Wyoming is forecast to remain flat or increase slightly, Agriculture employment is expected to lose another 1,500 jobs by the year 2002, making up only 4.8 percent of Wyoming's total employment. Employment in the Federal Military category is also expected to decline from 5,700 in 1991 to 4,990 by the year 2002. All other sectors reflect employment growth or stability, with the largest increase reflected in the Services sector, which is expected to see an increase of 14,580 jobs, or an increase of 24 percent over the next ten years.

It is discouraging to note that the second largest employment growth is forecast for the State and Local Government category, which is expected to increase from 46,050 jobs currently to 49,870 by the year 2002, at which time it will represent over 17 percent of all jobs in Wyoming, and be the second largest employment category in the State; second only to the Services Sector.

Dismal employment growth as reflected in these latest forecasts, not only indicate trouble for our graduating high school seniors

TOTAL WYOMING EMPLOYMENT
1970-2002

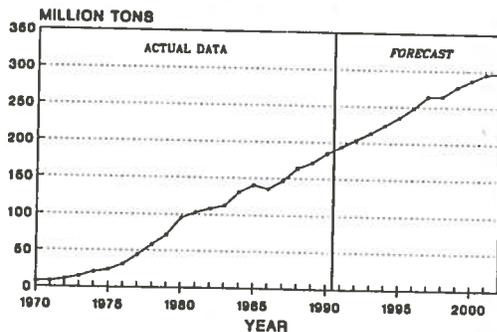


and students finishing their college studies at our University and community colleges, but also signal higher government outlays for unemployment, welfare, and other income eligible programs. It also indicates that revenues to operate our state and local governments will continue to be inadequate to sustain current levels of government services. This is especially obvious in the assessment of Wyoming's mineral industry.

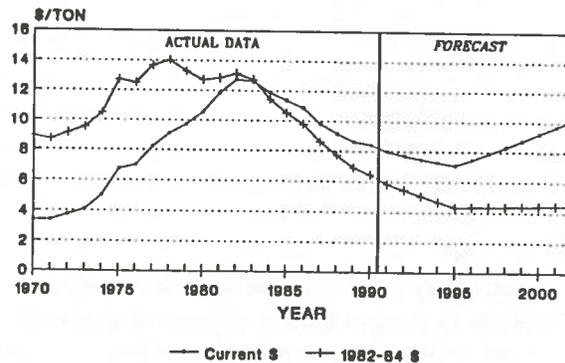
WYOMING'S MINERALS

Because Wyoming's minerals provide such a large portion of the total revenues which support our schools, colleges, cities, counties, and state governments, the economic outlook for this industry is especially important. As reported last year, forecasts for mineral production and resultant revenue are mixed.

WYOMING GROSS COAL PRODUCTION
1970-2002

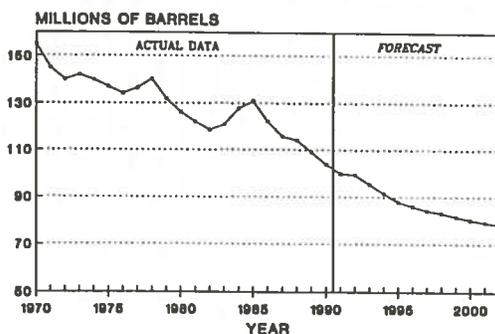


AVERAGE PRICE OF WYOMING COAL
1970-2002

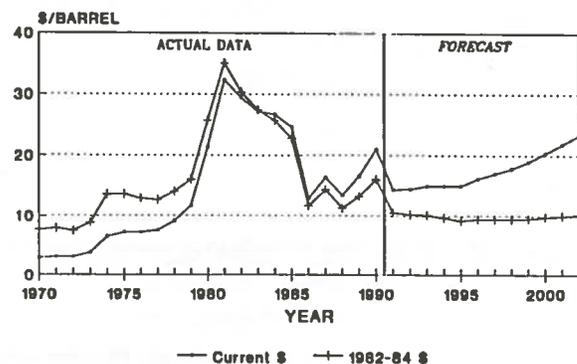


The Division of Economic Analysis reports that coal production is forecast to grow at a strong pace of 4.0 percent per year from 1991 to 2002. However, coal prices are projected to decline from \$7.97/ton in 1991 to \$7.08/ton in 1995, before beginning a rebound, expected to peak in 2002 at \$10.16/ton.

WYOMING GROSS PETROLEUM PRODUCTION
1970-2002

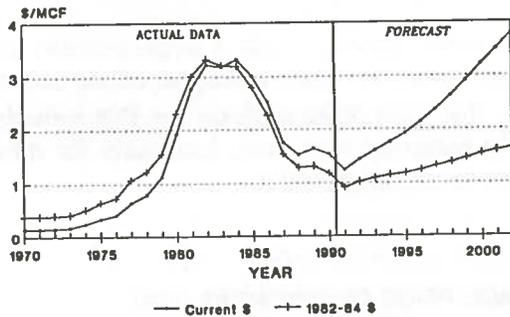


AVERAGE PRICE OF WYOMING PETROLEUM
1970-2002

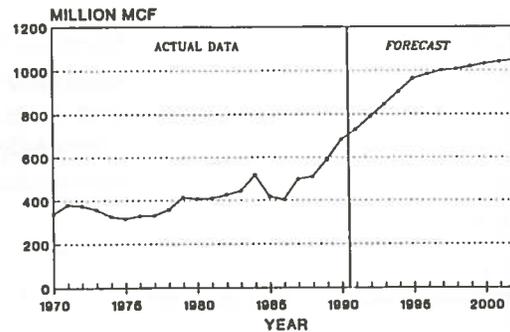


Petroleum production forecasts are extremely discouraging, with production projected to fall from approximately 100 million barrels in 1991 to only 78.4 million barrels in 2002, a 21 percent drop over the next ten years. Oil prices, which rebounded strongly in 1990 to \$21.05 per barrel, tumbled in 1991 to \$14.42 per barrel and are expected to show only modest increases over the next ten years, peaking in 2002 at \$23.33 per barrel.

AVERAGE PRICE OF WYOMING NATURAL GAS
1970-2002



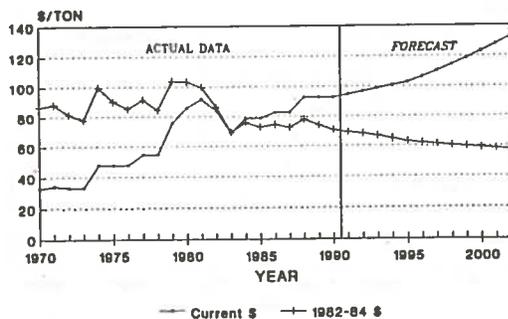
WYOMING GROSS NATURAL GAS PRODUCTION
1970-2002



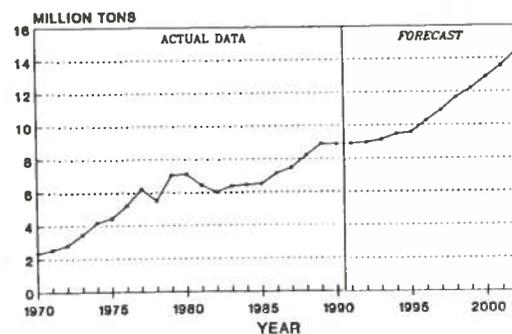
Natural gas is one of the bright spots in the Division of Economic Analysis forecasts; where production is expected to increase from 728 million mcf in 1991 to 1047 million mcf in 2002. Natural gas production is forecasted to show strong growth through 1995, followed by moderate growth in 1996 and 1997, and slow growth from 1998-2002. This large increase in production is expected to occur due to the construction of the Kern River pipeline from Opal, Wyoming to Southern California. While the pipeline will increase transportation capacity from Wyoming by 250 million mcf per year, a gradual increase in production is assumed as producers initially re-route gas from other pipelines to Kern River and subsequently increase production to meet demands of competing pipelines and final consumers.

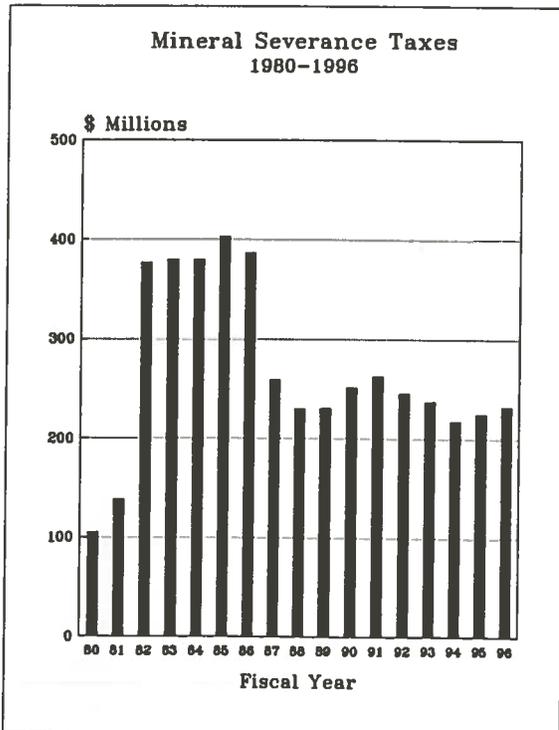
Natural gas prices are forecasted to rise through the forecast period on an average annual rate of 10.7 percent (5.6 percent in constant dollars).

AVERAGE PRICE OF WYOMING SODA ASH
1970-2002



WYOMING GROSS SODA ASH PRODUCTION
1970-2002





Relatively slow growth rates are expected for soda ash production through 1995, with growth picking up from 1995-2002, resulting in a ten year increase in production of from 8.9 million tons in 1991, to 14.5 million tons in 2002.

Soda Ash prices are forecasted to rise steadily at an average annual rate of 3.1 percent throughout the forecast period. Upward pressure on prices is being exerted by increased demand and inflationary pressure. Projections are for a price increase of from \$95.00 per ton in 1991 to \$132.65 per ton in 2002.

Although there are some isolated encouraging signs in the years ahead for the production and sale of Wyoming's mineral resources, the overall forecast spells difficult times for state government's revenue picture. Mineral severance tax collections in FY-1994 will be lower than at any level since 1981. The total expected for 1993-94 Biennium of \$455.4 million is \$52.8 million less than received in the 1991-92 Biennium, and is \$26.5 million less than received in the 1989-90 Biennium. Revenue projections for the 1995-96 Biennium are only slightly more encouraging.

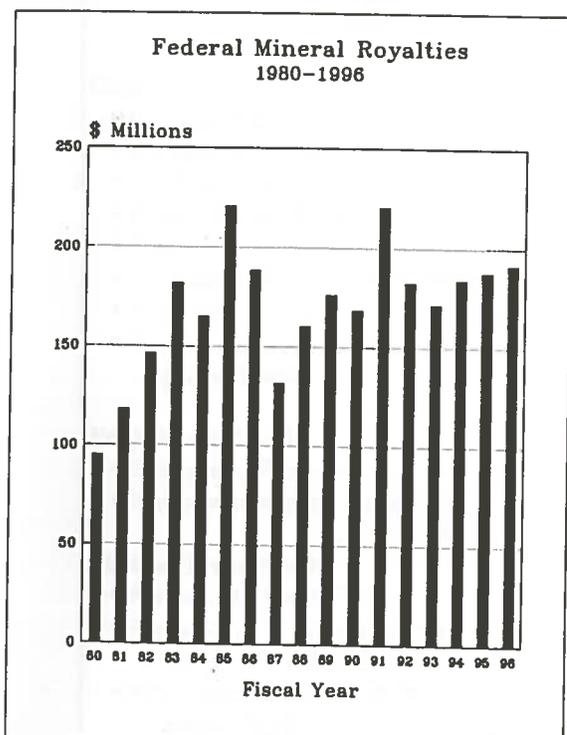
Revenue projections from Federal Mineral Royalties are also quite dismal. The 1993-94 Biennium total of \$355.3 million, compares to \$402.8 in the 1991-92 Biennium. The 1995-96 Biennium projections improve slightly to \$379 million which is still lower than 1991-92 levels.

I would again emphasize that economic growth forecasted for the next ten years is considerably slower than that experienced in the eighties. There is absolutely no way for the State to continue its existing level of government services, without major new revenue sources.

Unless the Governor and Legislature are willing to impose sizeable tax increases on Wyoming's citizens, alternatives must be found. We cannot continue to operate state government without strategic long-term plans; without defined goals and objectives; without performance measurement reporting; and, without program and performance auditing and evaluations. This lack of attention to sound management planning and control techniques can only result in chaotic taxing and spending policies.

INTERNAL CONTROLS

During the 1992 Legislative Session, I asked for passage of the Wyoming State Governmental Accountability, Audit and Internal Control Act, to enhance accountability to the citizens of Wyoming. This important legislation passed introduction, but was killed in



committee. The bill would have required far greater attention to financial management throughout all departments of state government, encompassing such areas as implementing statewide internal controls, annual auditing of the Treasury and the State Auditor, and assessing the need for internal audits within the major departments of state government. Although this specific act was rejected, the Legislature did pass legislation, clarifying the State Auditor's authority to prescribe internal controls as deemed necessary. In conjunction with this, the Auditor has contracted with a private CPA firm to audit internal controls of the State's new accounting system, including the data processing controls, and other selected areas. A report of this audit will be available for the 1993 Legislature. Following completion of this work, the internal controls associated with each department and programs within each department will be assessed for adequacy and effectiveness.

BUDGETARY PROCESS

The Governor, through his Budget Division, is required by statute to submit a cash basis Biennial State Budget which includes: (a) revenues and expenditures incurred in the two previous fiscal years and estimates of revenues and expenditures for the ensuing two fiscal years; (b) the indebtedness and obligations of the state; (c) the condition of the various funds and the State Treasury as a whole; (d) a general summary of the economic and social conditions of the State; and, (e) recommendations relative to state program goals and objectives.

The Legislature enacts appropriation bills and revenue measures contained in the State Budget it has approved. The Legislature also enacts other appropriation bills and revenue measures as it deems appropriate. Once signed by the Governor, these measures become law and the revenue estimates, budgets, and appropriations are adjusted to agree with the revisions made by the Legislature. This information is then "loaded" into the accounting system. Generally, these financial plans are amended as the CREG estimates are revised (generally in October and January of each year). The State Auditor reports on a monthly basis, throughout the biennium, showing a comparison of the actual year-to-date results with the revised plans and provides an explanation of any major deviations.

Expenditures are controlled at the major object level (e.g. personal services, supportive services, grants and aid payments, etc.) within each program of each department as established in the approval appropriation bills. Encumbrances are used to reserve a portion of the appropriation prior to the release of purchase orders and contracts to vendors. Purchase orders that would result in an over

expenditure of available major object level balances are not processed until budget revisions are approved. Outstanding encumbrances are reported as reservations of fund balances at year-end. Unexpended General Fund budget balances are reverted to the General Fund at the conclusion of each biennium.

REPORTING ENTITY

In order to assure comparability among governmental general purpose financial reporting, the Governmental Accounting Standards Board (GASB) prescribes various standards for state and local governments to follow in compiling their financial reports. The funds and entities included in this report are those for which the State is accountable based on the various criteria prescribed by the GASB. The criteria includes legal standing, fiscal dependency and financial accountability. Thus, Wyoming's Annual Report contains reporting on every component unit of government which is included in the State's centralized computer-based accounting system and over which the state exercises oversight responsibility. This includes the selection of governing authority, accountability for fiscal matters, designation of management and the ability to influence operations. The various funds, account groups and entities shown in this report are described in the Notes to Financial Statements.

Wyoming law has created fourteen funds within the State Treasury. Using these funds, the State provides a range of governmental services in such areas as education, social services, health, environmental services, criminal justice, transportation, wildlife and agriculture, among others, and also administers the Wyoming Retirement System.

In order to more clearly distinguish between functions which are under the State's control, and those which are not, GAAP requires that these funds be grouped into different categories. In accordance with these GAAP requirements, this report includes the following categories: General Governmental Funds, Proprietary Funds, and Similar Trust Funds.

The General Governmental Funds include the following of the fourteen Wyoming funds: General Fund, Earmarked Fund, Highway Fund, Game and Fish Fund, University of Wyoming Fund, Permanent Land Income Fund, Debt Service Fund, and the "expendable" portion of the Trust and Agency Fund.

The Proprietary Funds include the State's Enterprise and Intra-governmental funds, while the State's Permanent Land Fund, Permanent Wyoming Mineral Trust Fund, and the "non-expendable" accounts within the Trust and Agency Fund (e.g., Retirement

GAAP Grouping of Wyoming Funds:

General Governmental Funds:

- General Fund
- Earmarked Fund
- Highway Fund
- Game & Fish Fund
- University of Wyoming Fund
- Permanent Land Income Fund
- Debt Service Fund
- Expendable Trust and Agency Fund

Proprietary Funds:

- Enterprise Fund
- Intragovernmental Fund

Similar Trust Funds:

- Permanent Land Fund
- Permanent Wyoming Mineral Trust Fund (PWMTF)
- Non-Expendable Trust & Agency Fund

accounts, etc.) are grouped together and reported under the GAAP fund category called Similar Trust Funds.

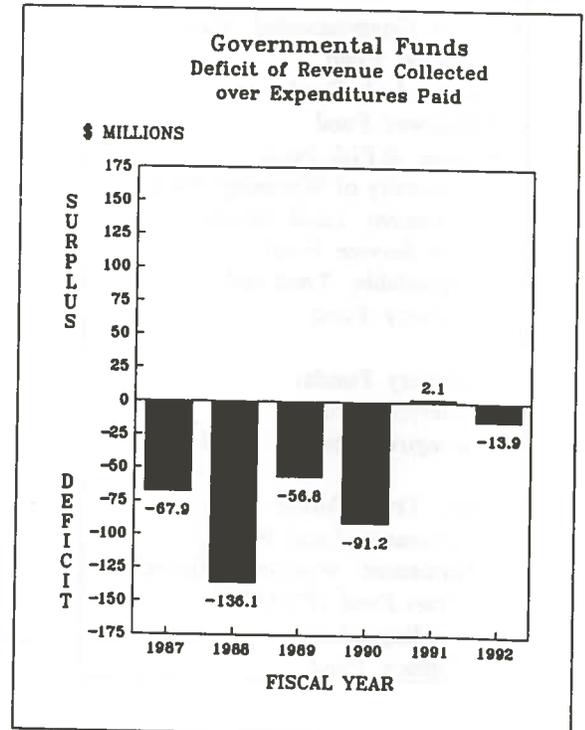
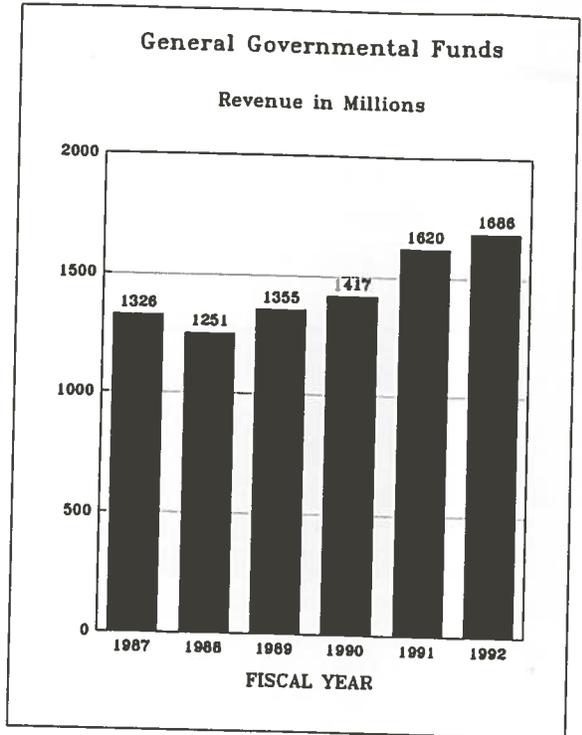
GENERAL GOVERNMENTAL FUNDS

Last year, I reported that for the first time in five years, revenues to the State's General Governmental Funds exceeded expenditures, when an excess of \$2.2 million occurred. This encouraging change, however, was short-lived inasmuch as expenditures in FY-1992 exceeded revenues by \$13.9 million. Thus, the combined six-year deficit of revenue collected over expenditures paid was \$363.8 million. This equates to an annual average deficit of \$60.6 million.

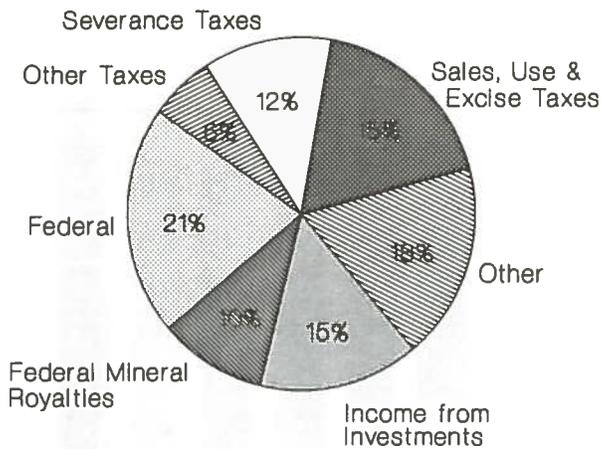
Total revenues and other financing sources of the General Governmental Funds were \$1.686 billion last year; an increase of \$66 million (4.1%) over fiscal year 1991. The revenues from various sources and the change from the previous year are shown in the tabulation that follows (in millions of dollars):

REVENUES AND OTHER FINANCING SOURCES*	1992	1991	Increase (Decrease) Over 1991 Actual	
			Amount	%
Taxes:				
Property	\$ 88.0	\$ 79.4	\$ 8.6	10.8%
Sales, Use, & Gasoline	302.7	272.4	30.3	11.1%
Severance	202.6	196.8	5.8	2.9%
Other	16.3	20.1	(3.8)	(18.9)%
Subtotal	\$609.6	\$568.7	\$ 40.9	7.2%
Federal Receipts	\$ 364.5	\$ 336.9	\$ 27.6	8.2%
Income from Investments:				
PWMTF	\$ 92.7	\$ 95.2	\$ (2.5)	(2.6)%
Pooled Interest	88.5	73.0	15.5	21.2%
Other	77.1	72.0	5.1	7.1%
Subtotal	\$ 258.3	\$ 240.2	\$ 18.1	7.5%
Federal Mineral Royalties	\$165.7	\$221.5	\$(55.8)	(25.2)%
Other:				
Revenue from Others	\$ 101.0	\$ 120.6	\$(19.6)	(16.3)%
Licenses, Permits, & Regulatory	64.4	57.5	6.9	12.0%
Charges for Sales & Services	55.6	44.0	11.6	26.4%
Non-revenue Receipts	62.0	26.3	35.7	135.7%
Fines, Forfeitures, & Penalties	5.4	4.7	.7	14.9%
Subtotal	\$ 288.4	\$ 253.1	\$ 35.3	13.9%
Total Revenues and Other Financing Sources	\$1,686.5	\$1,620.4	\$66.1	4.1%

*Includes all Wyoming Funds except: PWMTF, Permanent Land Fund, Enterprise Fund, Intra-governmental fund, and non-expendable accounts within the Trust and Agency Fund (e.g. Retirement accounts, etc.).



**GOVERNMENT FUNDS
FY 1992 REVENUES**



Increases in revenue were highlighted by:

- Sales, Use and Excise Taxes were up \$30.3 million, or 11.1%
- Federal Receipts were up \$27.6 million, or 8.2%
- Pooled Interest was up \$15.5 million, or 21.2%, due to a change in accounting procedures.
- Non-revenue Receipts were up \$35.7 million, or 135.7%, due to the repayment of principal on capital construction bonds.

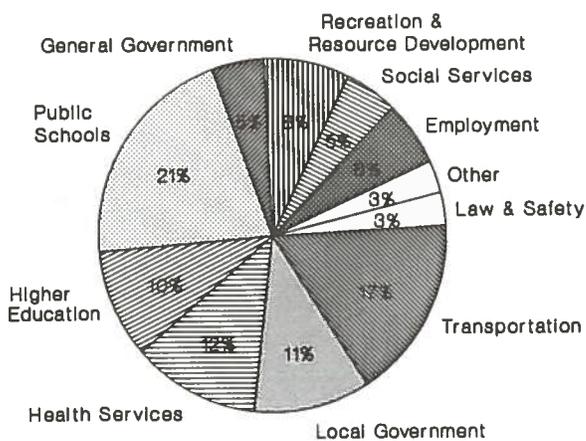
Expenditures and other Financing Uses totalled \$1.702 billion in Fiscal Year 1992, which is an increase of \$83.7 million (5.2%) over Fiscal Year 1991. The Expenditures and Other Financing Uses are shown in the tabulation that follows (in millions of dollars):

**EXPENDITURES AND
OTHER FINANCING USES***

1992 % of Total

	1992	% of Total
Judiciary	\$ 12.1	.7%
Legislative	3.2	.2%
Elementary & Secondary Education	350.2	20.6%
Higher Education	170.0	10.0%
Health Services	210.6	12.4%
Social Services	81.6	4.8%
Employment	100.0	5.9%
Transportation	297.1	17.4%
Local Government	186.4	10.8%
General Government	86.4	5.0%
Law & Safety	47.5	2.8%
Recreation & Resource Development	131.0	7.7%
Capital Outlay	4.8	.3%
All other	24.3	1.4%
Total Expenditures and Other Financing Uses	\$1,702.0	100.0%

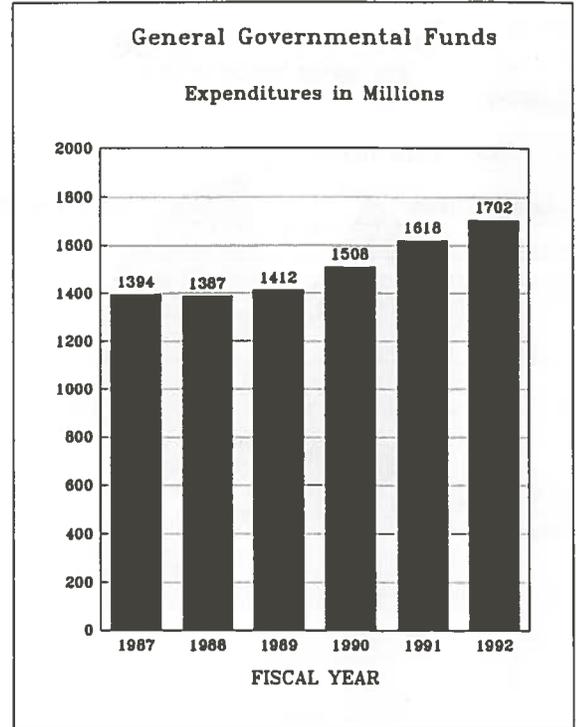
**GOVERNMENT FUNDS
FY 1992 EXPENDITURES**



*Includes all Wyoming Funds except: PWMTF, Permanent Land Fund, Enterprise Fund, Intra-governmental fund, and non-expendable accounts within the Trust and Agency Fund (e.g. Retirement accounts, etc.).

The trend in General Governmental Funds, Total Expenditures and other Financing Uses reflects an overall increase of \$308 million, or an average annual increase of 4.5 percent over the past five years:

	<u>Expended</u>	<u>Amount</u>	<u>Change</u> <u>%</u>
FY-1987	\$1,394	\$ --	--
FY-1988	1,387	(7)	(.5)%
FY-1989	1,412	25	1.8%
FY-1990	1,508	96	6.8%
FY-1991	1,618	110	7.3%
FY-1992	1,702	84	5.2%



FIDUCIARY FUND TYPE

The Fiduciary Fund Type includes all of the State's non-expendable Trust and Agency Funds and Pension Trust Funds. As of June 30, 1992, both of these fund categories reflected increases in fund balances. The Pension Trust funds increased by \$186.6 million, or 11.7%, from \$1,592,898,413 at the end of FY-1991, to \$1,779,469,858 at the end of last year. Non-expendable trust funds grew by \$90.9 million, or 4.7%, from \$1,932,140,527 at the end of FY-1991, to \$2,023,038,382 at the close of FY-1992.

CONCLUSION AND ACKNOWLEDGEMENTS

This report continues my commitment to improve and clarify financial reporting for the citizens of Wyoming. The report also demonstrates the need for reform in Wyoming government to address the imbalance between revenues and expenditures in our General Government funds. Although the State has a total of \$4.4 billion in unreserved fund balances, all but \$496 million of this, or 89%, resides in Trust Funds or the Debt Service Fund, which are unavailable to support general governmental programs. If the State's policy makers do not undertake substantial fiscal reforms immediately, tax hikes are unavoidable. We must begin at once improving the financial and program management in state government, including:

- full GAAP compliance and financial reporting;
- performance measurements reporting;
- performance auditing and program evaluations; and,
- annual financial audits of the Auditor and Treasury by independent CPA'S.

CITIZENS OF WYOMING

