

DAVID G. FERRARI, State Auditor

December 4, 1998

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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 Comprehensive Annual Financial Report of the State of Wyoming for the fiscal year ended June 30, 1998. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the State Auditor.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements for the University of Wyoming have been prepared in conformity with the American Institute of Certified Public Accountants' Industry Audit Guide - "Audits of Colleges and Universities" and the National Association of College and University Business Officers' publication, "College and University Business Administration", as well as GAAP standards.

The financial statements have been prepared primarily from accounts and records maintained by the State Auditor. The financial data for the Wyoming Retirement System, Wyoming Department of Transportation, University of Wyoming, Wyoming Community Development Authority and the Science, Technology and Energy Authority have been derived from reports prepared by those organizations based on independent audits and accounting systems maintained by them.

The general purpose financial statements contained in this report have been audited by the firm of Arthur Andersen LLP. Federal regulations require the performance of an annual "single audit", in accordance with the Federal Single Audit Act of 1994 and 1996 amendments, of the state's federal assistance awards. For fiscal year 1998 it is being conducted in conformance with the U.S. Office of Management and Budget's circular a-133, revised 6/30/97. The single audit is issued in a separate report.

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

MAJOR INITIATIVES

During the past eight years as your State Auditor, I have focused on issues which contributed to better, more affordable and efficient government.

GAAP Implementation Act

Legislation suggested by the State Auditor during the 1993 Legislative Session resulted in passage of the GAAP Implementation Act. The State's previous cash basis accounting was converted to the modified accrual basis. This process "freed up" approximately \$257 million for legislative appropriation. FY 1998 marked the fourth consecutive year in which the State's accounting and financial reporting was in compliance with generally accepted accounting principles (GAAP), providing assurance to the citizens of Wyoming that the financial information they have received on the state's finances is accurate and complete.

Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the State of Wyoming for the 1995 and 1997 Comprehensive Annual Financial Reports (CAFR). This is a prestigious national award recognizing conformance with program standards. The CAFR satisfies both generally accepted accounting principles (GAAP) and applicable legal requirements. Due to problems encountered in the State's Medicaid program, the 1996 CAFR and statewide audit could not be completed in time for GFOA to complete its review and issue the Certificate of Achievement. It is anticipated that the FY 1998 CAFR will again receive this award.

Wyoming Bond Guarantee Program

Legislation initiated by my office during the 1994 Legislative Session was passed, which utilizes our Permanent Funds to guarantee payments of local construction bond issues for our public schools, cities, towns and counties. By guaranteeing these payments, all qualifying bond issues receive the highest ratings issued by the bond rating companies. This means that the interest rates charged on these bonds are the lowest available. From inception the State has guaranteed a total of \$81.8 million in school district bonds, at a calculated savings to the taxpayers of \$1,518,082.

Early Retirement Proposal

In 1995 the Legislature implemented an **Early Retirement Incentive Plan** proposed by my office. The proposal provided incentives for long-term employees to retire early from State service. These employees, who were approaching retirement age, were at the higher end of the salary schedule. Replacement workers were hired at a substantial savings to the taxpayers. A total of 554 people retired under the program and 143 of the vacated positions were eliminated. Of the remaining 411 positions, 92 were unfilled as of June 30, 1998. Since inception, the program has generated actual savings of \$24.9 million, with the potential to generate an additional \$40 million in savings over the next six years.

Statewide Audit of the State's Finances

For only the fifth time in the State's 107 year history, an audit of its financial statements was completed by independent external auditors. Four of these audits were conducted during the last four consecutive years, including fiscal year 1998.

"Most Improved of the 50 States"

In 1992, Financial World Magazine dubbed Wyoming the worst managed State in the nation. We improved to 43rd in 1993, there was no ranking in 1994 and we finished 31st in 1995. Wyoming was credited with being one of the most improved of the 50 states, largely because of the following initiatives: conversion to GAAP, production of the CAFR, popular reporting, and independent audit of the State's general purpose financial statements. The authors of this ranking are now with Governing Magazine and are currently compiling a new ranking for that publication. I am advised that, once again, Wyoming's ranking will show improvement.

FINANCIAL INFORMATION

Internal Controls

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Process

Wyoming statutes require the Governor to prepare and submit a biennial budget to the legislature each odd numbered year, prior to the beginning of the legislative session. Budgets are prepared for a biennial period beginning on July 1st of even numbered years and are augmented, if necessary, with supplemental appropriations during the odd numbered year's legislative sessions. The Legislature may add, change, or delete any budget items proposed by the Governor.

The Legislature appropriates substantially cash basis budgets for a majority of the funds at the program level within an agency (administration, revenue division, investigations, etc.). The State budget office maintains budgets for budgeted funds at the series level within a program (personal services, support services, etc.). Agency budget analysts are allowed to transfer appropriations from one series to another series within an agency's program but the Governor must approve all changes in appropriations at the program level. The State's legal level of budgetary control is at the program level. Supplemental appropriations have been included in the budget column of the budget and actual statements and schedules. In the budget and actual statements, encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriations, is employed for budgetary control purposes. Some unencumbered appropriations lapse at the end of each biennium while other unencumbered appropriations are carried over to future bienniums upon approval of the Budget Division. Capital project funds are budgeted on a project length basis. Encumbrances are reported as a reservation of fund balance and are carried forward for use in future years.

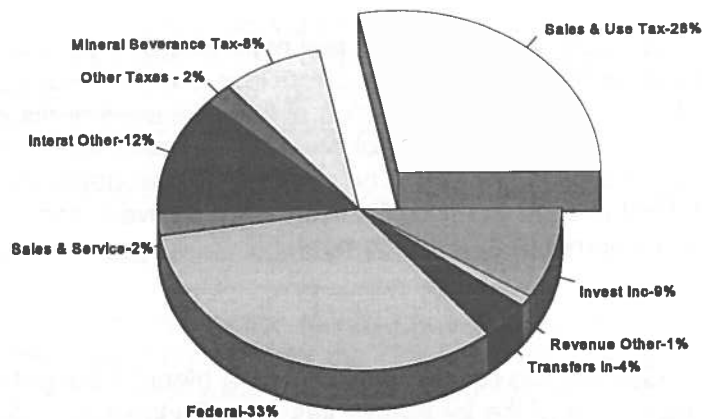
Reporting Entity

The State implemented GASB Statement 14, "The Financial Reporting Entity", during FY-1993. As a result, entities over which the State has significant operational or financial relationships such as boards, commissions, colleges and universities are considered component units. Component units are either discretely presented or blended. Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government (the State). The following organizations comprise the State's discretely presented component units: Department of Transportation, Wyoming Community Development Authority (WCDA) and Science, Technology and Energy Authority (STEA). Blending requires the component unit balances and transactions to be included in the balances and transactions of the State.

General Fund

Total general fund revenues are presented in a pie chart on the following page to display how sources relate to total revenue. The table shows the change in 1997 and 1998 revenue sources. On page v, general fund expenditures are similarly presented, depicting functions as they relate to total expenditures.

Fiscal Year 1998 General Fund Revenue & Other Financing Sources

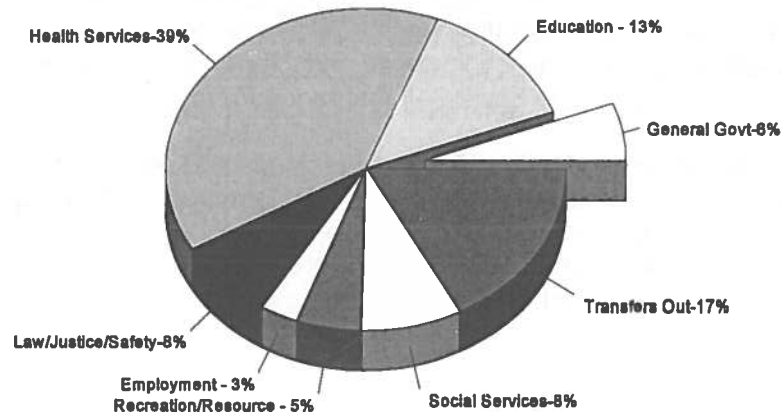


As shown in the table below, total Revenue and Other Financing Sources increased 10% or \$84,010,622 in fiscal year 1998. The General Fund portion of Sales and Use Tax and Other Taxes increased by \$15.3 million and by \$2.8 million, respectively, reflecting increased activity in the areas of compliance and collection by the Department of Revenue. Fines and Forfeitures increased by \$3.3 million. Changes occurred between fiscal years due to the timing of protest settlements and collection of mineral severance penalties. Investment Income increased by \$78 million due to the good market. Federal Revenue increased by \$13.2 million attributable to the timing of the collection of augmenting revenue between fiscal years.

General Fund Revenue and Other Financing Sources

	FY-97	FY-98	Increase (Decrease)	Percent Change
Taxes				
Sales & Use	\$241,147,386	\$256,457,079	\$15,309,693	6%
Mineral Severance	69,184,172	69,958,315	774,143	1%
Other Taxes	17,179,098	19,997,592	2,818,494	16%
Licenses and Permits	2,656,760	3,217,739	560,979	21%
Fines & Forfeitures	1,030,379	4,280,461	3,250,082	315%
Use of Property	1,089,555	1,343,003	253,448	23%
Investment Income	6,388,947	84,382,157	77,973,210	1220%
Interest from Other Funds	107,781,238	105,155,894	(2,625,344)	(2%)
Charges for Sales & Services	13,803,984	15,591,048	1,787,064	13%
Revenue from Others	10,659,766	10,278,846	(272,916)	(3%)
Federal	287,141,965	300,303,891	13,161,926	5%
Other	<u>63,960</u>	<u>65,481</u>	<u>1,521</u>	2%
Total Revenues	758,127,210	871,119,510	112,992,300	15%
Other Financing Sources				
Operating Transfers-in	<u>63,039,002</u>	<u>34,057,324</u>	<u>(28,981,678)</u>	(46%)
Total Revenue and Other Financing Sources	<u>\$821,166,212</u>	<u>\$905,176,834</u>	<u>\$84,010,622</u>	<u>10%</u>

Fiscal Year 1998 General Fund Expenditures & Other Financing Uses



As shown in the table below, overall Expenditures and Other Financing Uses increased by 1% or \$7,603,078 in fiscal year 1998. Education expenditures increased by \$4.2 million due to timing of receipt of federal augmenting revenue for the University of Wyoming and the timing of payments to the Foundation Program. Health Services increased by \$23.3 million and Social Services decreased by \$4.6 million. These changes are attributable to the timing of the collection of augmenting revenue between fiscal years. Law, Justice and Safety increased by \$4.7 million reflecting the expenditures for capital construction projects, relocation and housing for inmates, and the timing of contractual payments for medical billing services.

General Fund Expenditures and Other Financing Uses

	FY-97	FY-98	Increase (Decrease)	Percent Change
General Government	\$48,425,404	\$50,143,924	\$1,718,520	4%
Regulation of Business	3,068,434	3,251,831	183,397	6%
Education	100,713,503	104,939,101	4,225,598	4%
Health Services	296,042,387	319,381,166	23,338,779	8%
Law, Justice and Safety	59,166,679	63,836,641	4,669,962	8%
Employment	26,985,702	27,525,021	647,323	2%
Recreation & Resource Development	40,222,326	38,522,414	(1,699,912)	(4%)
Social Services	<u>70,087,849</u>	<u>65,512,125</u>	<u>(4,575,724)</u>	(7%)
Total Expenditures	644,712,284	673,220,227	28,507,943	4%
Other Financing Uses				
Transfers-out	<u>163,403,893</u>	<u>142,499,028</u>	<u>(20,904,865)</u>	(13%)
Total Expenditures & Other Financing Uses	<u>\$808,116,177</u>	<u>\$815,719,255</u>	<u>\$7,603,078</u>	1%

Proprietary Funds

The State of Wyoming enterprise operations are comprised of the Liquor Commission, Institution Canteens, Subsidence Insurance, Local Government Insurance, Honor Farm Agricultural Sales, Wyoming Health Insurance Pool and Workers' Compensation. The negative retained earnings reported under the Internal Service Fund type, in the Combined Statement of Revenue, Expenses and Changes in Retained Earnings/Fund Balance, is due to \$6.6 million of liability claims in the State Self Insurance Fund.

The State operated nine internal service funds which provide goods and services to state and local governments on a cost reimbursement basis. These are comprised of Computer Technology, Motor Vehicle, Supply Warehouse, Central Duplicating, Telecommunications, Group Insurance, Surplus Property, Personnel Training, and State Self-Insurance. Supply Warehouse is in the process of being eliminated and 75 % of central duplicating functions have been privatized.

Fiduciary Funds

The State reports expendable trust funds for which both the principal and interest can be spent for the specific purpose of the trust. Nonexpendable trust funds are those for which only the interest earned from the principal is expendable. The State reports pension trust funds, which provide pension benefits to State and local government employees upon retirement, and agency fund operations, which report assets held in a fiduciary capacity for others.

Debt Administration

As of June 30, 1998, the State had a number of debt issues outstanding. These debt issues included two refunding revenue bonds which were used to defease three revenue bond issues in prior years, as well as \$27 million of revenue bonds issued for capital construction in fiscal year 1996. In addition, the University has numerous bond issues outstanding for capital construction projects. On July 1, 1998, the State issued General Fund Tax and Revenue Anticipation Notes, Series 1998 in the aggregate principal amount of \$90,000,000 to cover temporary cash shortages in the general fund. The Series 1998 Notes will mature on June 25, 1999.

Cash Management

Cash temporarily idle during the year and balances held in trust were invested in bank deposits, U.S. Treasury Securities, repurchase agreements and other investment instruments. The interest on these investments and deposits is credited to each fund based on the fund's participation in the cash and investment pool. Many funds are not allowed by law to receive interest. The interest earned on these funds is credited to the general fund. \$105 million was recorded as Interest from other Funds, for fiscal year 1998.

Risk Management

The State of Wyoming maintains two self insurance plans: the State Self-Insurance program and the State Group Insurance program, which provides employee medical, life, and dental insurance. These plans are reported in internal service funds. In addition, the State administers one public entity risk pool, comprised of three insurance enterprises: Subsidence, Health and Worker's Compensation. These are reported in enterprise funds, as required by GASB Statement No. 10.

CONCLUSIONS AND ACKNOWLEDGMENTS

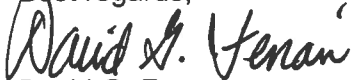
This report concludes my commitment to clarify and improve financial reporting for the citizens of Wyoming, in order that they may have an accurate picture of the financial condition of their government. As noted earlier in this report, great strides have been made in the past eight years to improve our State's accounting and financial

reporting: implementation of GAAP, preparation of the CAFR, independent audit of our financial statements, "Popular" reporting -- all have contributed to better financial management. My appreciation goes out to our Staff for making these improvements possible.

The preparation of this report could not have been accomplished without the cooperation of all State agencies. I am especially appreciative of the staff in the State Auditor's Office, whose commitment to serve the citizens of Wyoming continues to be demonstrated. We would like to thank the Division of Economic Analysis and the CREG Committee for information used in this letter. We also thank the Department of Commerce: Wyoming Travel Commission and Division of Tourism, for the use of their photographs and narratives which showcase some of Wyoming's magnificent historic sites.

Thank you!

Best regards,



David G. Ferrari
State Auditor