



**WYOMING STATE TREASURER'S  
INVESTMENT REPORT**

**Fiscal Year 2008**  
(July 1, 2007 - June 30, 2008)

**September 2008**



# WYOMING STATE TREASURER'S

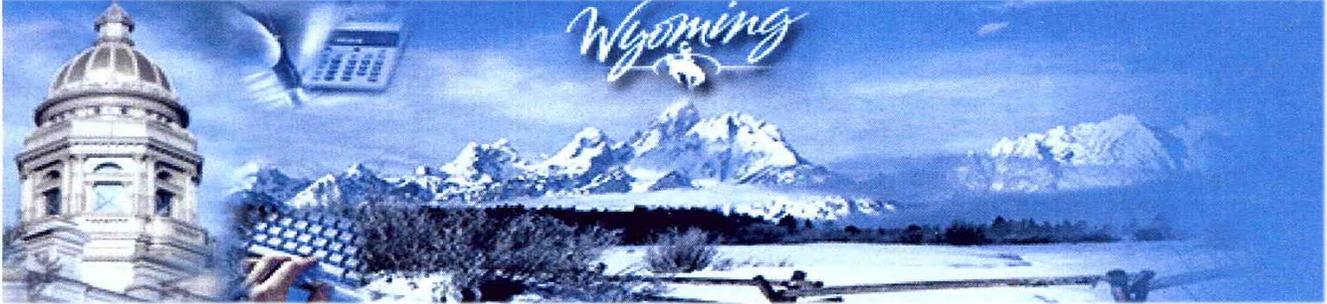
## INVESTMENT REPORT

Fiscal Year 2008  
(July 1, 2007 – June 30, 2008)

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## WYOMING STATE TREASURER'S INVESTMENT REPORT Fiscal Year 2008 (July 1, 2007 - June 30, 2008)



The State Treasurer is statutorily mandated to present an annual report to include permanent fund investments, income from those investments, gains and losses for each fund and the extent to which state investment policies have been implemented and performance goals achieved. I am happy to report that the investment policies of the State Loan and Investment Board and Wyoming Legislature have been implemented and performance goals achieved and/or exceeded.

Good investing strategy is part science and part carrying out of fiduciary duties. The asset allocation model first adopted by the state loan and investment board in 1999, and annually updated and funded, is primarily investment science representing modern portfolio investment theory. The periodic day to day monitoring and oversight of Wyoming's investments and managers, trustee due diligence, on behalf of the citizens of the state, is the carrying out of fiduciary duty on behalf of the citizens of Wyoming, which can not be delegated. The Office of State Treasurer follows the adage of Winston Churchill: "However beautiful the strategy, one should occasionally look at the results."

Fiscal year 2008 is the second fiscal year after the culmination of an eight-year process to diversify the state's investment portfolio into a full array of equity and fixed income assets designed to decrease the overall risk of the portfolio and produce an average return over a period of years greater than a portfolio primarily consisting of fixed income investments.

Continuing trends appear to be:

1. As presented to the Select Committee on Capital Financing and Investments, revenue from a mature state investment portfolio falls into three main classes: Interest; Dividends; Capital Gains. The portion of state revenue attributable to interest and dividends should remain reasonably predictable within a reasonable range for the purposes of the Consensus Revenue Estimating Group.

2. Currently, when the value of an equity investment class varies by more than three percent (3%) over the target value set by the State Loan and Investment Board, a portion of the investment is sold to rebalance back to target. The converse occurs when the variance is more than three percent (3%) under target. Thus, depending on periodic market performances, different equity investment classes of the portfolio may produce less capital gain return in some years and substantial capital gain return in other years. How these sorts of unpredictable revenue flows are treated is an important issue which should be addressed by the legislature in the very near future.

3. As authorized and monitored by the State Loan and Investment Board, other recent types of equity investments, primarily Absolute Return and Private Equity investments, will also result in unpredictable streams of revenue, primarily capital gains. Currently the state of Wyoming has approximately \$330 million invested in these two investment classes. The nature of these investments normally is few returns over the first five to six years after which, if successful, will result in much higher investment returns over the next several years.

4. Clearly over the past several years, due primarily to increased mineral values, production and severance taxes, the corpus of permanent funds has grown substantially. The probable trend of periodic, but unpredictable, increased capital gains from the equity portfolio and the current legislative spending policy, if unchanged, will operate to further grow the corpus of permanent funds.

5. During FY08:

(a) The Office of State Treasurer has increased its oversight, monitoring and due diligence functions relative to all classes of investments in the portfolio. We are in a "red" alert mode at the present time, working with RV Kuhns and individual state investment managers, and will continue in that mode until national financial conditions stabilize;

(b) Given that the state investment portfolio was developed over ten years based on optimal allocations among classes of investments, and based on a portfolio review by RV Kuhns under current financial conditions, several items have been reviewed with increased monitoring with the following results:

(i) Is the optimal allocation strategy for the portfolio, reviewed and modified annually, still best serving the portfolio in the current abnormal stressed market environment? It is possible that the market volatility may have mis-aligned asset allocations relative to long-term target allocations. The practical and most immediate task is adherence to rebalancing policies. In up markets as was experienced in FY 08, that means capturing excess valuations as capital gain and rebalancing down to targets. In down markets it means incrementally moving assets to equities, domestic and international, and rebalancing up to targets. That currently is occurring;

(ii) Maximizing the long-term returns of the state's investment portfolio depends to a large extent on maintaining close to optimal asset allocations as possible for much of the period. Asset allocation is the largest driver of total fund returns. Changing it significantly creates a clear cost and notable risks. The Office of State Treasurer follows this maintenance with minor corrections if circumstances warrant same. This is the most conservative course of action;

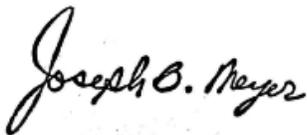
(iii) Maintain and increase diversification between and within the various classes of investments, fixed and equities. This has been accomplished and is being maintained;

(iv) Avoid over concentration in specific industries and unreasonable use of leverage. The Office of State Treasurer, through many meetings and conversations with investment managers, verified, and continues to verify, that portfolio managers do not have excessive concentrations in specific industries nor have strategies using excessive leverage. Frequent communications with all managers is increasing at present and will continue;

(v) Currently the Office is extending its review to include the securities lending programs and cash management vehicles. The State Loan and Investment Board's investment manager, RV Kuhns, is also stepping up its monitoring efforts and communicating frequently with members of this Office.

c. The state's investment portfolio has been intentionally positioned over the past several months to have a larger cash position. A large portion is very liquid. Given the current markets, and lack of liquidity, there should be some good opportunities to deploy this liquidity in several manners in the immediate future. How that is accomplished is a policy decision which I hope Wyoming legislators, the Governor as chief budget officer, other members of the State Loan and Investment Board and this office can and will collaborate on over the months ahead and through the upcoming legislative session for the ultimate benefit of Wyoming citizens.

As a means of providing more transparency on the financial operations of the state treasury, additional information, such as an overview of Wyoming investment strategies, the state investment policy, monthly and quarterly investment performance reports, and up to date portfolio status, is available on our website (<http://treasurer.state.wy.us>). The information contained in this annual report on state investments and daily tracking of state revenues and expenditures have been compiled and accomplished by the very skilled and hard working persons of the Office of State Treasurer. I am in their debt.



Joe Meyer  
Wyoming State Treasurer

September 2008

## WYOMING STATE INVESTMENT PORTFOLIO Fiscal Year 2008 Review

### PORTFOLIO OVERVIEW

The State Treasurer manages all non-pension funds of the state. As stated in the Master Investment Policy and Sub-Policies approved by the State Loan and Investment Board, the Treasurer invests the state portfolio "in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity."

The State's portfolio is in a diversified asset allocation. Modern portfolio theory, creating a diversified portfolio of asset classes, allows the investor to achieve a high rate of return while minimizing the volatility of the portfolio. Simply put, the State's portfolio diversification protects the corpus of the funds and allows maximum returns within acceptable risk.

The State portfolio consists of nine investment pools in seven fund types. Seven pools — the Permanent Wyoming Mineral Trust Fund, the Permanent Land Funds, the Hathaway Scholarship Endowment Fund, the Excellence in Higher Education Endowment Fund and the Worker's Compensation Fund — may hold equities, fixed income and cash. The State Agency Pool and the Tobacco Settlement Fund can only hold fixed income and cash.

|                                  | FY 07 (\$ Millions) |                  | FY 08             |                   |
|----------------------------------|---------------------|------------------|-------------------|-------------------|
|                                  | <u>Cost</u>         | <u>Market</u>    | <u>Cost</u>       | <u>Market</u>     |
| Permanent Mineral Trust Fund     | \$3,341.6           | \$3,728.1        | \$3,896.6         | \$4,135.4         |
| Permanent Land Funds             |                     |                  |                   |                   |
| - Common School Perm Land Fund   | 1,462.3             | 1,678.3          | 1,677.7           | 1,766.1           |
| - University Permanent Land Fund | 15.4                | 17.4             | 16.1              | 17.0              |
| - Remaining Permanent Land Funds | 72.5                | 81.0             | 86.0              | 91.0              |
| Hathaway Scholarship Fund        | *                   | *                | 419.3             | 418.0             |
| Higher Ed Endowment Fund         | *                   | *                | 105.0             | 104.8             |
| Workers Compensation Fund        | 851.9               | 856.6            | 1,019.17          | 988.3             |
| Tobacco Settlement Fund          | 56.4                | 55.4             | 59.0              | 57.0              |
| State Agency Pool                | <u>3,598.7</u>      | <u>3,578.4</u>   | <u>3,603.6</u>    | <u>3,593.6</u>    |
| <b>Total</b>                     | <b>\$9,398.8</b>    | <b>\$9,995.2</b> | <b>\$10,882.4</b> | <b>\$11,171.1</b> |

The newest investment pools are the Hathaway Scholarship Endowment Fund and the Higher Education Endowment Fund. Voters approved a constitutional amendment in November 2006 that made these permanent funds, and able to hold equities. The Treasurer's Office began investing these funds as separate investment pools, with an equity allocation, on July 1, 2007. These funds were previously invested within the State Agency Pool.

As shown above, the Treasurer's investment portfolio grew from \$9.4 billion on a cost basis on June 30, 2007, to \$10.9 billion on June 30, 2008. The portfolio's market value increased from just under \$10 billion on June 30, 2007, to \$11.2 billion on June 30, 2008.

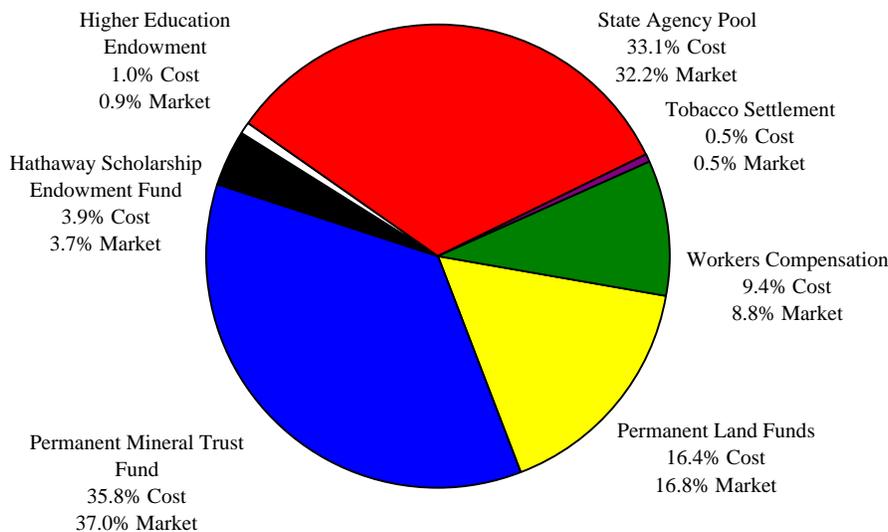
Total investment income reached an all-time high in FY 08 of \$723.4 million dollars. Dividend and interest income was \$416.2 million. Income from realized capital was \$307.2 million, including \$133.3 million from rebalancing the portfolio, discussed further later in this report.

# WYOMING STATE INVESTMENT PORTFOLIO

June 30, 2008

The State Treasurer's Office manages \$11.2 billion in non-pension investable funds across seven fund types. Five funds, the Permanent Wyoming Mineral Trust Fund, the Permanent Land Funds, the Hathaway Scholarship Endowment Fund, the Excellence in Higher Education Endowment Fund and the Worker's Compensation Fund may hold equities under current law. The other funds cannot: the State Agency Pool and the Tobacco Settlement Fund.

|  | Cost Basis                  | Market Value                |
|--|-----------------------------|-----------------------------|
| <b>Permanent Wyoming Mineral Trust Fund</b>  | <b>\$3,896,621,442</b>      | <b>\$4,135,435,366</b>      |
| <i>Funded with constitutional and statutory mineral severance tax revenues, and occasional direct legislative appropriations. Income from the PWMTF goes to the state general fund. Up to 55 percent of the PWMTF may be invested in equities; the FY 08 target is 52 percent.</i>   |                             |                             |
| <b>Permanent Land Funds</b>  | <b>1,779,745,597</b>        | <b>1,874,035,142</b>        |
| <i>Funded with royalties, leases, fees and permits, and other revenue generated from state lands. Investment income from these funds go to state public institutions. The Common School Permanent Land Fund is the largest of the land funds: \$1.678 billion book/cost, \$1.766 billion market; its investment income helps to fund Wyoming's K-12 schools. Up to 55 percent of the Permanent Land Funds may be invested in equities; the FY 08 target is 52 percent.</i> |                             |                             |
| <b>Hathaway Scholarship Endowment Fund</b>   | <b>419,252,450</b>          | <b>417,997,280</b>          |
| <i>Funded with federal mineral royalties. Investment income is used to pay higher education tuition for qualifying Wyoming high school graduates at the University of Wyoming and Wyoming's community colleges. Up to 55 percent may be invested in equities; the FY 08 target is 25 percent; the target through FY 09 is 52 percent.</i>  |                             |                             |
| <b>Excellence in Higher Education Endowment Fund</b>   | <b>105,000,000</b>          | <b>104,820,958</b>          |
| <i>Funded with federal mineral royalties. Investment income is used to pay for recruitment and retention of faculty, to establish endowed faculty positions and to support the work of endowed faculty at the University of Wyoming and Wyoming's community colleges. Up to 55 percent may be invested in equities; the FY 08 target is 25 percent; the target through FY 09 is 52 percent.</i>  |                             |                             |
| <b>Workers Compensation Fund</b>   | <b>1,019,173,345</b>        | <b>988,285,391</b>          |
| <i>Funded with employer premiums. Investment income is used to assist in the payment of Workers Compensation costs including administrative and indemnity costs, and vendor payments. Up to 45 percent of the Workers Compensation Fund may be invested in equities; the FY 07 target was 5 percent; the target through FY 09 is 25 percent..</i>  |                             |                             |
| <b>Tobacco Settlement Fund</b>   | <b>59,016,931</b>           | <b>56,978,081</b>           |
| <i>Funded with settlement proceeds received by Wyoming under the 1998 Master Settlement Agreement between states and tobacco companies. Income from the fund goes to health improvement programs.</i>  |                             |                             |
| <b>State Agency Pool</b>   | <b><u>3,603,624,493</u></b> | <b><u>3,593,554,699</u></b> |
| <i>Monies from all other state funds pooled for investment. Income is distributed back to a specific state agency or to the state general fund.</i>  |                             |                             |
| <b>GRAND TOTAL ALL FUNDS</b>   | <b>\$10,882,434,259</b>     | <b>\$11,171,106,917</b>     |



The State portfolio's total return was 3.9 percent in FY 08. The cash yield from the portfolio was 7.40 percent for the year. Performance by fund and by manager is detailed later in the report.

The chart on the following page shows the total return and yield for the Permanent Wyoming Mineral Trust Fund for the past five years. It illustrates the fact that while market value fluctuations can mean wide fluctuations in total return, the cash yield of the PWMTF remains fairly consistent from year to year.

## **ASSET ALLOCATION**

Asset allocation is the distribution of investments among asset classes. It is the major determinant of both the long-term rates of return and the volatility of the asset values. There are two parts to the asset allocation decision: identifying alternative asset allocation possibilities, and choosing the best combination of assets to meet investment objectives.

The State's portfolio includes US and international stocks, real estate, private equity, absolute return strategies, bonds and cash. Each investment pool has a specific target allocation of each of these types of investments listed in the State's Investment Policy. The Treasurer's Office systematically invests money using monthly dollar cost averaging to achieve and maintain each pool's investment allocation.

The Permanent Mineral Trust Fund and Permanent Land Funds maintained their target allocation during FY 08 of approximately 52 percent equities and 48 percent fixed income and cash.

As explained above, the Hathaway Scholarship Endowment and Higher Education began FY 08 invested solely in fixed income. The Treasurer's Office began investing them as permanent funds in July 07 with the intention of taking them to the same equity allocation as the other permanent funds over a two-year period through June 2009. They ended FY 08 at just under 24 percent equities, the balance in fixed income and cash.

The Workers Compensation Fund began diversification into equities during FY 07. Monthly allocations continued through June 2007 to meet a 5 percent equity allocation as agreed with the director of the Department of Employment per legislation passed in 2005, and detailed in the Master Investment Policy. The Department increased the equity allocation request for the Workers Compensation Fund to 25 percent beginning July 1, 2007. The Treasurer will achieve that target allocation by June 30, 2009 through monthly allocations.

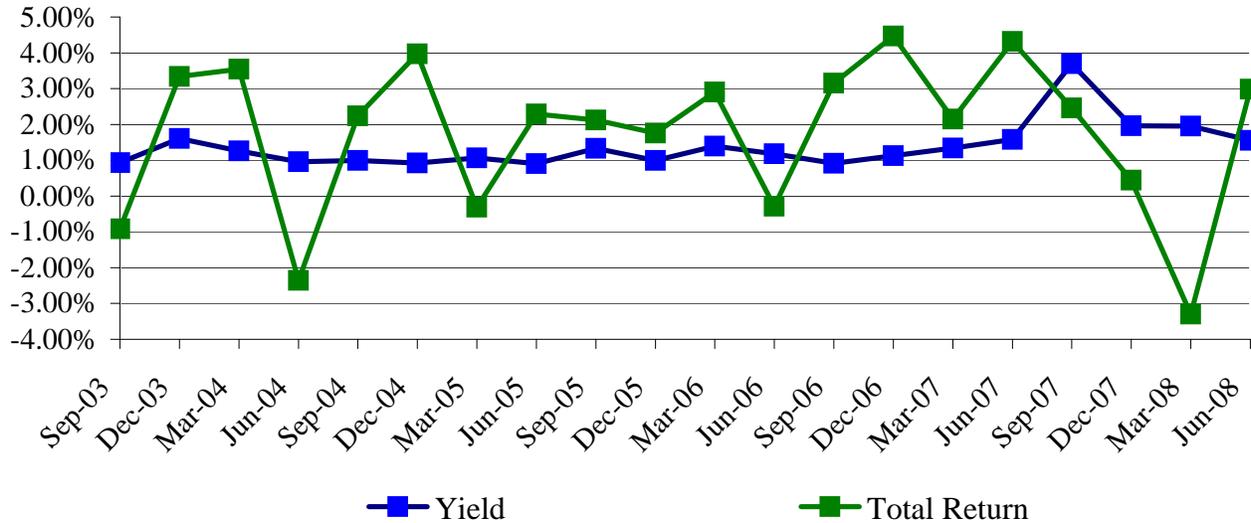
The Treasurer's Office sent \$3.5 billion to external equity and fixed income managers during FY 08: \$2.270 billion to external fixed income managers and \$1.257 billion to equity managers.

Total external fixed income and cash funding was \$5.437 billion (cost basis) on June 30, 2008, with a market value of \$5.369 billion.

External equity manager funding was \$3.127 billion (cost basis) on June 30, 2008, with a market value of \$3.462.

The charts on the following pages illustrate the diversification of the State's portfolio, and detail funding levels of the asset classes and the managers who collaborate with the State Treasurer's Office in the management of the State's portfolio.

**PERMANENT WYOMING MINERAL TRUST FUND  
YIELD AND TOTAL RETURN COMPARED**



| <u>Quarter Ending</u> | <u>Yield</u>   |               | <u>Total Return</u> |               |
|-----------------------|----------------|---------------|---------------------|---------------|
|                       | <u>Quarter</u> | <u>Annual</u> | <u>Quarter</u>      | <u>Annual</u> |
| September 30, 2003    | 0.93%          |               | -0.92%              |               |
| December 31, 2003     | 1.61%          |               | 3.34%               |               |
| March 21, 2004        | 1.26%          |               | 3.54%               |               |
| June 30, 2004         | 0.96%          | 4.76%         | -2.36%              | 3.51%         |
| September 30, 2004    | 0.99%          |               | 2.24%               |               |
| December 31, 2004     | 0.92%          |               | 3.97%               |               |
| March 21, 2005        | 1.06%          |               | -0.31%              |               |
| June 30, 2005         | 0.90%          | 3.87%         | 2.29%               | 8.40%         |
| September 30, 2005    | 1.33%          |               | 2.12%               |               |
| December 31, 2005     | 0.99%          |               | 1.76%               |               |
| March 21, 2006        | 1.39%          |               | 2.90%               |               |
| June 30, 2006         | 1.18%          | 4.81%         | -0.29%              | 6.62%         |
| September 30, 2006    | 0.91%          |               | 3.15%               |               |
| December 31, 2006     | 1.13%          |               | 4.47%               |               |
| March 21, 2007        | 1.34%          |               | 2.15%               |               |
| June 30, 2007         | 1.58%          | 4.96%         | 4.32%               | 14.83%        |
| September 30, 2007    | 3.69%          |               | 2.46%               |               |
| December 31, 2007     | 1.96%          |               | 0.44%               |               |
| March 21, 2008        | 1.95%          |               | -3.30%              |               |
| June 30, 2008         | 1.55%          | 9.02%         | 2.98%               | 2.44%         |

# WYOMING STATE INVESTMENT PORTFOLIO

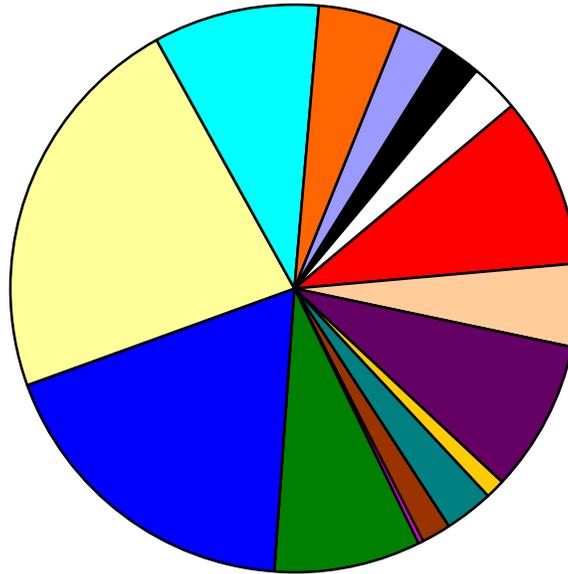
June 30, 2008

## FIXED INCOME

|                     |   |             |       |
|---------------------|---|-------------|-------|
| Internal Bonds      | ■ | \$1,992.6 M | 18.3% |
| External Core-Plus  | ■ | \$2,453.3 M | 22.5% |
| External Mortgages  | ■ | \$1,004.0 M | 9.2%  |
| External Corporates | ■ | \$520.1 M   | 4.8%  |
| External Global     | ■ | \$298.0 M   | 2.7%  |
| Convertibles        | ■ | \$257.2 M   | 2.4%  |
| Wyoming Investments | □ | \$298.2 M   | 2.7%  |

**TOTAL**  
**\$6,823.3 M**  
**62.7%**

**\$10.882 Billion**  
**Cost Basis**



**CASH \$904.2 M 8.3%**

## EQUITIES

|                 |   |             |      |
|-----------------|---|-------------|------|
| Large Cap US    | ■ | \$1,072.7 M | 9.9% |
| Small / Mid US  | ■ | \$493.4 M   | 4.5% |
| International   | ■ | \$933.4 M   | 8.6% |
| Private Equity  | ■ | \$128.7 M   | 1.2% |
| Real Estate     | ■ | \$297.0 M   | 2.7% |
| Absolute Return | ■ | \$200.0 M   | 1.8% |
| Options         | ■ | \$29.7 M    | 0.3% |

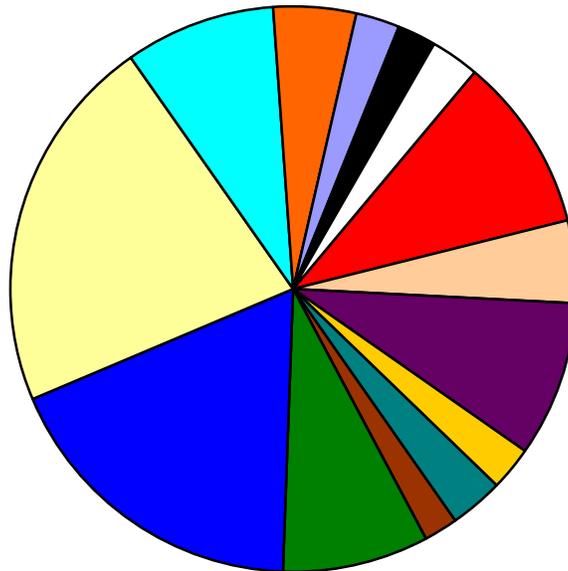
**TOTAL**  
**\$3,154.9 M**  
**29.0%**

## FIXED INCOME

|                     |   |             |       |
|---------------------|---|-------------|-------|
| Internal Bonds      | ■ | \$2,013.7 M | 18.0% |
| External Core-Plus  | ■ | \$2,427.4 M | 21.7% |
| External Mortgages  | ■ | \$977.4 M   | 8.7%  |
| External Corporates | ■ | \$501.9 M   | 4.5%  |
| External Global     | ■ | \$295.2 M   | 2.6%  |
| Convertibles        | ■ | \$259.2 M   | 2.3%  |
| Wyoming Investments | □ | \$298.2 M   | 2.7%  |

**TOTAL**  
**\$6,772.8 M**  
**60.6%**

**\$11.171 Billion**  
**Market Value**



**CASH \$908.0 M 8.1%**

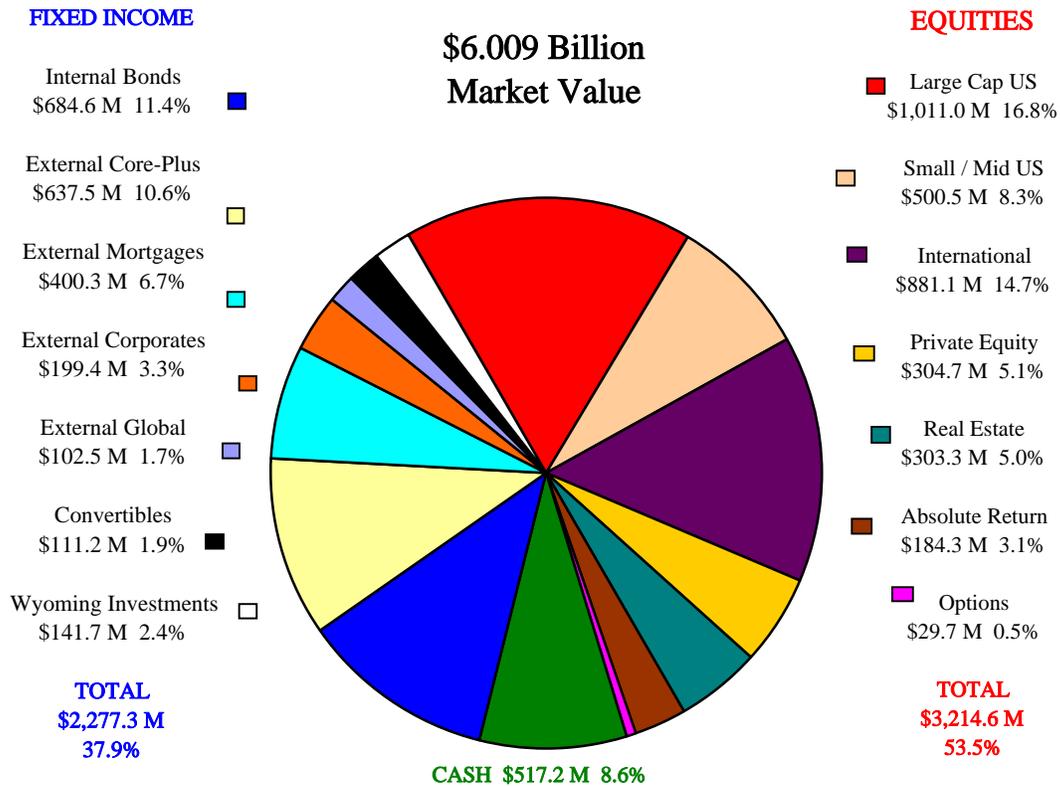
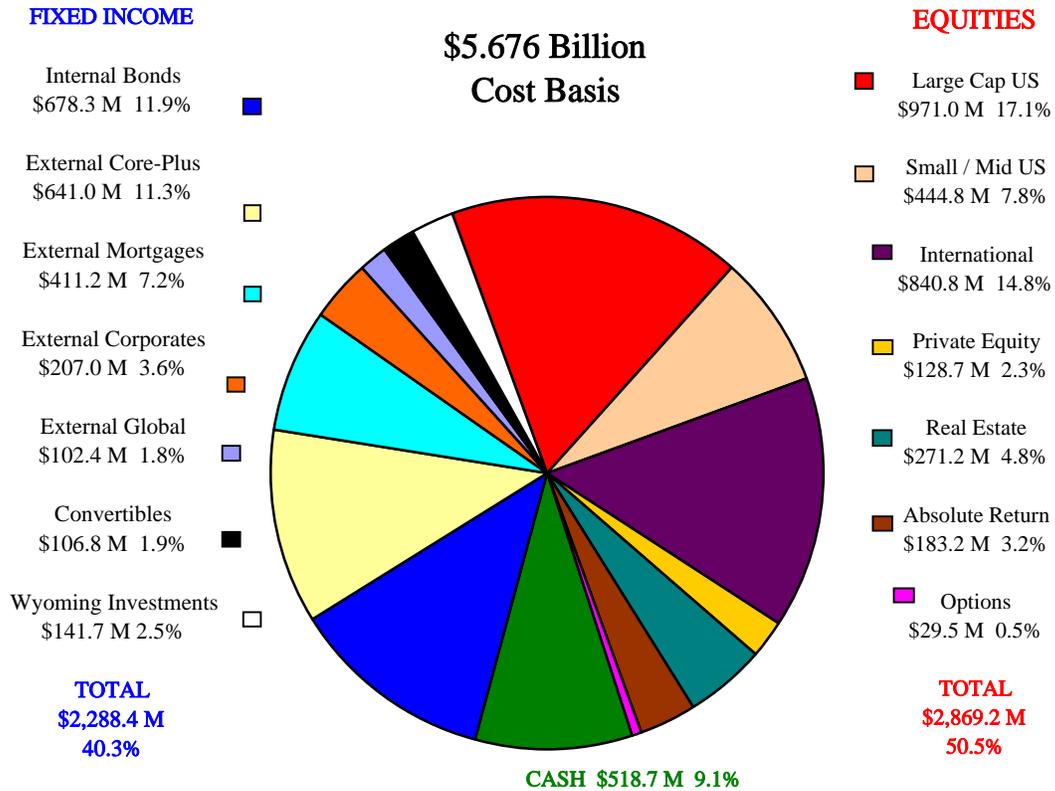
## EQUITIES

|                 |   |             |      |
|-----------------|---|-------------|------|
| Large Cap US    | ■ | \$1,105.1 M | 9.9% |
| Small / Mid US  | ■ | \$548.8 M   | 4.9% |
| International   | ■ | \$970.1 M   | 8.7% |
| Private Equity  | ■ | \$304.7 M   | 2.7% |
| Real Estate     | ■ | \$330.5 M   | 3.0% |
| Absolute Return | ■ | \$201.2 M   | 1.8% |
| Options         | ■ | \$29.9 M    | 0.3% |

**TOTAL**  
**\$3,490.4 M**  
**31.2%**

# WYOMING STATE INVESTMENT PORTFOLIO PERMANENT WYOMING MINERAL TRUST FUND AND PERMANENT LAND FUNDS ONLY

June 30, 2008



**WYOMING STATE INVESTMENT PORTFOLIO**  
**June 30, 2008**

| <b>EXTERNAL EQUITIES</b>                            |   | <b>Cost Basis</b>       | <b>Market Value</b>     |
|---|---|-------------------------|-------------------------|
| Large Cap Index                                     | State Street Global Advisors                      | \$1,071,968,366         | \$1,104,570,188         |
| Small / Mid Cap                                     | Friess Associates                                 | 233,237,240             | 263,113,903             |
|   | GAMCO   | 260,147,854             | 285,663,774             |
| International                                       | Capital Guardian Trust                            | 457,560,017             | 459,034,738             |
|   | Fisher Investments                                | 448,336,146             | 483,270,407             |
| Options Overlay                                     | First Quadrant                                    | 29,730,059              | 29,903,362              |
| Private Equity                                      | Access Venture Partners <i>(\$10 M committed)</i> | 1,185,000               | 958,844                 |
|   | Cheyenne Capital Fund <i>(\$257.95 committed)</i> | 127,472,686             | 303,790,554             |
| Real Estate   | ING Clarion                                       | 141,303,630             | 165,216,602             |
|   | UBS Realty  | 141,303,630             | 150,934,562             |
|   | Heitman <i>(\$10 M committed)</i>                 | 2,431,750               | 1,939,888               |
|   | TA Realty <i>(\$15 M committed)</i>               | 12,000,000              | 12,403,334              |
| Absolute Return                                     | Harris Alternatives                               | 100,000,000             | 98,109,971              |
|   | PAAMCO  | 100,000,000             | 103,074,642             |
| <b>Total External Equities</b>                      |   | <b>\$3,126,676,377</b>  | <b>\$3,461,984,770</b>  |
| <i>excludes outstanding commitments</i>             |   |                         |                         |
| <b>EXTERNAL FIXED INCOME, CONVERTIBLES AND CASH</b> |   |                         |                         |
| Convertibles  | Nicholas Applegate                                | \$257,155,875           | \$259,151,646           |
| Core-Plus   | Western Asset Management                          | 884,477,379             | 875,847,464             |
|   | Lehman  | 892,735,392             | 877,372,975             |
|   | PIMCO   | 676,093,861             | 674,174,592             |
| Corporates  | Western Asset                                     | 309,981,207             | 299,504,528             |
|   | Logan Circle                                      | 210,114,251             | 202,378,070             |
| Mortgages   | JPMorgan  | 522,078,596             | 495,411,081             |
|   | PIMCO   | 481,935,543             | 482,006,219             |
| Global  | PIMCO   | 297,975,617             | 295,050,570             |
| <b>Total External Fixed Income and Convertibles</b> |   | <b>\$4,532,547,723</b>  | <b>\$4,460,897,146</b>  |
| Cash Manager  | JPMorgan  | 904,201,602             | 907,951,841             |
| <b>Total External Cash</b>                          |   | <b>\$904,201,602</b>    | <b>\$907,951,841</b>    |
| <b>TOTAL EXTERNAL MANAGEMENT</b>                    |   | <b>\$8,563,425,702</b>  | <b>\$8,830,833,757</b>  |
| <b>INTERNALLY MANAGED FUNDS</b>                     |   |                         |                         |
| Fixed Income  | Bonds   | \$1,992,588,242         | \$2,013,702,715         |
| Equity Index Fund                                   | Exchange Traded Funds                             | 27,509,132              | 27,843,625              |
| U. S. Equities                                      | UW Portfolio Management Program                   | 725,730                 | 541,367                 |
| <b>Total Internal Portfolio</b>                     |   | <b>\$2,020,823,103</b>  | <b>\$2,042,087,706</b>  |
| <b>Wyoming Investments</b>                          |   | <b>\$298,185,453</b>    | <b>\$298,185,453</b>    |
| <b>TOTAL INTERNAL MANAGEMENT</b>                    |   | <b>\$2,319,008,557</b>  | <b>\$2,340,273,160</b>  |
| <b>GRAND TOTAL ALL FUNDS</b>                        |   | <b>\$10,882,434,259</b> | <b>\$11,171,106,917</b> |

*Note: Access Venture, Cheyenne Capital Fund, Heitman and TA Realty cost basis as of June 30, 2008, market values as of March 31, 2008 because of report timing.*

## REBALANCING

The long-term target allocation for each of the State's investment pools reflect a specific desired risk and return profile, consistent with each funds individual objectives and constraints. The State Treasurer's Office keeps investments at target allocations primarily through regular investment of new revenue to the portfolio, but rebalancing also plays a key role.

Rebalancing brings a portfolio of investments back into line when market conditions have caused it to deviate from its target asset allocation, and is key to effective risk management. An effective rebalancing policy provides a disciplined approach for staying aligned with the target asset allocation. The State Treasurer's Office uses a tolerance rebalancing strategy that examines the actual portfolio allocation and triggers rebalancing if an asset class falls outside its allowable range.

The Treasurer's Office began rebalancing the portfolio on July 1, 2007. The allocation to large cap US equity reached over 20 percent of the permanent funds' portfolios, but the long-term target allocation is 16 percent. The Treasurer pared back the S&P large cap index allocation managed by State Street by \$400 million — \$298 million of which was principal and \$102 million capital gains. The Treasurer and State Street had repeated discussions in June 2007 and early July 2007 resulting in a smooth, cost effective transaction.

In January 2008, the international equity allocation of the Permanent Wyoming Mineral Trust Fund and the Permanent Land Funds exceeded 17 percent compared to a long-term target allocation of 14 percent. The Treasurer's Office reduced the international exposure in the funds to bring the allocation into line with that long-term target in keeping with the portfolio Rebalancing Policy. The total sale of just over \$220 million returned \$188.7 million in principal that was redeployed to other asset classes, and \$31.3 million in capital gains income that was distributed to statutory recipients.

## ALTERNATIVE INVESTMENTS

### Absolute Return Strategy Added to Portfolio:

The State Loan and Investment Board on October 5, 2006, approved hiring three firms to implement absolute return strategies: AIG, Harris Alternatives and Pacific Alternative Asset Management (PAAMCO).

Contracts for Harris and PAAMCO were approved by the SLIB in the fall of 2007. The Treasurer placed \$100 million with PAAMCO during November 2007, and \$100 million with Harris in December 2007. The Treasurer did not pursue a contract with AIG because \$200 million met the target allocation for this asset class.

### Private Equity:

The Treasurer appointed Michael Walden-Newman, Chief Investment Officer, to the Cheyenne Capital Fund advisory committee.

On October 4, 2007, the SLIB approved the hiring and investment of \$10 million with Access Venture Partners. Michael Walden-Newman also serves on the Access advisory committee.

## **SUBPRIME CRISIS**

The State Treasurer's Office followed the subprime issue as it heated up during the summer of 2007, maintaining usual close contact with the State's external investment managers. In November, the Treasurer notified participants in Wyoming's local government investment pool, WYO-STAR, that they had no subprime mortgages, no corporate bonds, no commercial paper, and that all securities in the WYO-STAR portfolio carry a AAA rating. This followed the news that Florida local governments were pulling their assets from that state's pool.

The Treasurer's Office asked each State portfolio investment manager for its subprime exposure. Most managers had no direct exposure, and there was little exposure among those who did. The Treasurer reported the survey results to the State Loan and Investment Board in January 2008.

## **SELECT COMMITTEE ON CAPITAL FINANCING AND INVESTMENTS**

The State Treasurer met with the Select Committee on Capital Financing and Investments on November 29, 2007. Items discussed included a review of the investment portfolio, spending policies and the proposed revision to the investment statutes.

## **2008 LEGISLATIVE SESSION**

Ch. 113, 2008 Wyoming Sessions Laws, *Investment of state funds - revisions*, sponsored by the Select Committee on Capital Financing and Investments takes effect on July 1, 2008. Original Senate File 28, the legislation consolidates state investment statutes and removes unclear, conflicting and archaic provisions.

## **INVESTMENT POLICY UPDATES**

The State Loan and Investment Board approved changes to the Master Investment Policy and Sub-Policies three times during FY 08.

### December 13, 2007

The changes:

- Establish sub-policies for the Hathaway Scholarship Fund and the Higher Education Endowment Fund,
- Expand the return benchmarks for certain investment managers,
- Clarify the minimum credit ratings for bond holdings,
- Expand and clarify the custom benchmarks for each fund to reflect their true composition,
- Deleted references to programs that expired and amending other outdated language.

### February 7, 2008

The changes implemented a policy on terrorist-related investments. As background:

Legislators filed bills during the 2007 General Session of the Wyoming Legislature that would have restricted investments in (a) countries identified as state-sponsors of terrorism by the US State Department and (b) specifically in the Sudan. At the State Treasurer's suggestion, the sponsors brought these concerns before the State Loan and Investment Board in February 2007 to seek an Investment Policy change rather than a statutory change.

## **INVESTMENT POLICY UPDATES (cont.)**

After months of research and consultation with portfolio managers and RV Kuhns, the SLIB adopted a change to the Investment Policy on February 7, 2008, that:

- states the Board's wish to avoid investments that support terrorism or the violation of human rights, and
- requires investment managers to screen their Wyoming portfolios no less than quarterly to ensure that the portfolios do not hold investments in companies so designated by the U.S. Treasury Department Officer of Foreign Asset Control (OFAC).

June 5, 2008

RV Kuhns & Associates, at the request of the State Treasurer's Office, conducted a study of the State's fixed income portfolio. Among the study's recommendations were increased allocations to external fixed income managers originally hired by the Board in February 2006, and increased exposure to emerging markets in the global strategy.

RV Kuhns proposed changes to the Master Investment Policy and Sub-Policies to implement the recommendations. The SLIB approved the changes on June 5, 2008.

## **CUSTODIAL BANK RFP**

The State Treasurer's Office issued a request for proposal for custodial banking services in March 2008. The current custodial banking relationship with JPMorgan Chase Bank has been in place for 15 years. The Treasurer and his staff interviewed three finalists — BNY Mellon, JPMorgan Chase and State Street — in May.

The Treasurer's Office retained JPMorgan as custodian under a one-year provisional contract to expire June 30, 2009. If JPMorgan does not meet expectations, the Treasurer's Office will begin contract negotiations with State Street, the contingent finalist. RV Kuhns assisted in the custodial search and selection process.

## **SECURITIES LENDING STUDY**

The State Treasurer's Office contracted with RV Kuhns & Associates in February 2008 to perform a thorough review of the securities lending program. The program with JPMorgan Chase and Victory Capital generates incremental revenue through short-term loans of the portfolio's stocks and bonds.

The Treasurer's Office believed it was a good time to have an objective look at the program for a couple of reasons. First, so the study could coincide with the Treasurer's custodial bank search because incorporating a securities lending program into a custodial relationship has a direct affect on bank fees. Also, to exercise the same due diligence with securities lending as the Treasurer does with all investment managers — particularly with regard to potential subprime exposure in the underlying collateral.

RV Kuhns completed the report in June 2008, confirming the program was sound and recommending no changes.

## **INVESTMENT MANAGER OVERSIGHT**

The Treasurer continues to host investment managers as part of on-going operational due diligence in managing the State portfolio. Treasurer staff also conducts on-site manager visits throughout the year.

- October 15, 2007: Logan Circle Partners
- October 16: PIMCO
- January 8, 2008: Capital Guardian, International Equity
- January 14: GAMCO, Small / Mid-Cap US Equity
- April 23: ING and TA Realty, Real Estate
- May 14: UBS and Heitman, Real Estate

Treasurer's Office staff also conducted on-site visits:

- February 5-6, 2008: Austin: JPMorgan Chase Bank, the Treasurer's custodial bank
- April 13-16: New York: ING (Real Estate), Lehman Brothers (Core-Plus Fixed Income), Nicholas Applegate (Convertible Bonds), JPMorgan (Mortgage Fixed Income, Cash Management and WYO-STAR [the local government investment pool])

The Treasurer, of course, remains in regular contact with all managers throughout the year in addition to the meetings noted above.

## **CONFERENCES**

The State Treasurer attended the following investment conferences:

- September 15-22, 2007: National Association of State Treasurers
- October 22-23, 2007: Alternative Investment Summit
- October 29-31, 2007: Institutional Investor Roundtable
- February 10-12, 2008: U.S. Institute's Americas Sovereign Funds Roundtable
- March 9-13, 2008: National Association of State Treasurers Legislative Conference
- March 25-28, 2008: Governmental Investment Officers Association Conference
- April 22-26, 2008: Institutional Investor Roundtable for Public Funds

Treasurer's staff attended the following investment conferences:

- December 2-5, 2007: National Association of State Treasurers
- March 25-28, 2008: Governmental Investment Officers Association Conference
- April 15-18, 2008: Fundamentals of Municipal Bond Law Seminar.
- April 27-29, 2008: Mountain States Retirement Forum

## **TIME DEPOSIT OPEN ACCOUNT PROGRAM (TDOA)**

The TDOA program is a discretionary State Treasurer program by which public funds are placed in banks approved as eligible state depositories. Banks utilizing this program must fully collateralize the deposits and pay interest to the State Treasurer at rates set quarterly by the State Loan and Investment Board. This program assists banks that lack an asset base sufficient to meet their lending needs.

## **TIME DEPOSIT OPEN ACCOUNT PROGRAM (cont.)**

In July 2007, the State Treasurer increased the amount available to local banks from \$100 million to 5 percent of the State Agency Pool assets — approximately \$156 million for 2007. For 2008, five percent (5%) of the State Agency Pool assets amounts to \$148 million which is less than the \$150 million minimum that the State Treasurer has set for the TDOA program. Therefore, \$150 million will be available to Wyoming banks in 2008.

## **ADVISORY COMMITTEE**

Treasurer Meyer appointed an advisory committee to provide periodic information exchanges and create additional transparency about operations of state investments and investment policies. The Treasurer asked constituent groups from the public and private sector to nominate representatives to the committee.

- Committee members:
  - Tom Lockhart, Wyoming State Representative
  - Joel Schell, Converse County Treasurer
  - Mike Daly, Chief Executive Officer, First National Bank of Wheatland
  - John Hay, President, Rock Springs National Bank
  - Mark Zaback, President, Jonah Bank of Wyoming
  - Mark Higdon, Executive Director, Wyoming School Boards Association
  - Bob McLaurin, City Administrator, Town of Jackson
  - Lynne Boomgaarden, Director, Office of State Lands & Investments
  - Harry Wales, Interim Director, Wyoming Retirement System

## **STATE TREASURER'S WEBSITE**

The State Treasurer's Office continually updates investment information on its website: <http://treasurer.state.wy.us/investmentsbank.asp#invest>. The Sovereign Wealth Fund Institute gives Wyoming one of its highest rankings in terms of public transparency.

# MARKET PERFORMANCE

## SUMMARY ANALYSIS - ALL INVESTMENTS

|  | FY 08       |              | Market Return |        |        |
|--|-------------|--------------|---------------|--------|--------|
|  | Cost Basis  | Market Value | FY08          | 3 Year | 5 Year |
| <b><u>INVESTMENTS BY FUND</u></b>                    |             |              |               |        |        |
| Permanent Wyoming Mineral Trust Fund                 | \$3,896.62  | \$4,135.44   | 2.44%         | 7.84%  | 7.07%  |
| Permanent Land Fund                                  | 85.96       | 91.03        | 2.23%         | N/A    | N/A    |
| Common School Permanent Land Fund                    | 1,677.73    | 1,766.05     | 2.27%         | 7.59%  | 7.25%  |
| University Permanent Land Fund                       | 16.06       | 16.96        | 2.92%         | N/A    | N/A    |
| Hathaway Scholarship Endowment Fund                  | 419.25      | 418.00       | N/A           | N/A    | N/A    |
| Higher Education Fund                                | 105.00      | 104.82       | N/A           | N/A    | N/A    |
| Workers Compensation Fund                            | 1,019.17    | 988.29       | 4.30%         | 4.08%  | 4.42%  |
| Tobacco Settlement Fund                              | 59.02       | 56.98        | 6.15%         | 4.38%  | 3.37%  |
| State Agency Pool                                    | 3,603.62    | 3,593.55     | 5.23%         | 4.54%  | 4.21%  |
|  | <hr/>       | <hr/>        |               |        |        |
| Wyoming State Total Fund                             | \$10,882.43 | \$11,171.11  | 3.90%         | 6.18%  | 5.70%  |
| Wyoming State Custom Index                           |             |              | 3.17%         | 5.21%  | 4.84%  |
| <b><u>INVESTMENTS BY ASSET CLASS AND MANAGER</u></b> |             |              |               |        |        |
| <b><u>US Equity</u></b>                              |             |              |               |        |        |
| UW Portfolio Management Program (1)                  | \$0.73      | \$0.54       | 0.07%         | N/A    | N/A    |
| Gabelli (2)  | 260.15      | 285.66       | -10.74%       | 7.74%  | 12.33% |
| Friess Associates (3)                                | 233.24      | 263.11       | 1.07%         | 13.47% | N/A    |
| State Street Global Advisors (Index) (1)             | 1071.97     | 1,104.57     | -12.66%       | 4.62%  | 7.33%  |
| Total Domestic Equity                                | <hr/>       | <hr/>        |               |        |        |
|  | \$1,566.08  | \$1,653.89   |               |        |        |
| <b><u>US Equity Indices</u></b>                      |             |              |               |        |        |
| S&P 500 (1)  |             |              | -13.12%       | 4.41%  | 7.58%  |
| Russell 2500 Value (2)                               |             |              | -19.91%       | 2.19%  | 10.91% |
| Russell 2500 Growth (3)                              |             |              | -9.20%        | 7.40%  | 11.61% |
| <b><u>International Equity</u></b>                   |             |              |               |        |        |
| Int'l Exchange Traded Funds (4)                      | \$27.51     | \$27.84      | -11.16%       | 12.41% | N/A    |
| Fisher (4)   | 448.34      | 483.27       | -1.43%        | 17.11% | N/A    |
| Capital Guardian (4)                                 | 457.56      | 459.03       | -7.35%        | 14.38% | N/A    |
| Total International Equity                           | <hr/>       | <hr/>        |               |        |        |
|  | \$933.41    | \$970.15     |               |        |        |
| <b><u>Int'l Equity Indices</u></b>                   |             |              |               |        |        |
| MSCI EAFE (4)  |             |              | -10.15%       | 13.34% | 17.16% |
| <b><u>Domestic Fixed Income</u></b>                  |             |              |               |        |        |
| WAMCO Core Plus (5)                                  | 884.48      | 875.85       | 6.01%         | 3.98%  | 4.06%  |
| Lehman Brothers Core Plus (5)                        | 892.74      | 877.37       | 4.68%         | N/A    | N/A    |
| PIMCO Core Plus (5)                                  | 676.09      | 674.17       | 10.06%        | N/A    | N/A    |
| PIMCO Mortgages (6)                                  | 481.94      | 482.01       | 8.18%         | N/A    | N/A    |
| JP Morgan Mortgages (6)                              | 522.08      | 495.41       | 0.96%         | N/A    | N/A    |
| WAMCO Corporates (7)                                 | 309.98      | 299.50       | 2.70%         | N/A    | N/A    |
| Logan Circle Corporates (7)                          | 210.11      | 202.38       | 0.56%         | N/A    | N/A    |
| PIMCO Global (8)                                     | 297.98      | 295.05       | 6.23%         | N/A    | N/A    |
| Wyoming State Treasurer's Office (9)                 | 1,992.59    | 2,013.70     | 8.09%         | 5.09%  | 4.70%  |
|  | <hr/>       | <hr/>        |               |        |        |
|  | \$6,267.98  | \$6,215.45   |               |        |        |
| <b><u>US Fixed Income Indices</u></b>                |             |              |               |        |        |
| Lehman Aggregate (5)                                 |             |              | 7.12%         | 4.09%  | 3.85%  |
| Lehman Mortgages (6)                                 |             |              | 7.83%         | 4.82%  | 4.56%  |
| Lehman Credit (7)                                    |             |              | 3.81%         | 2.76%  | 3.27%  |
| Lehman Global Aggregate Hedged (8)                   |             |              | 4.79%         | 3.17%  | 3.55%  |
| Lehman Gov't/Credit (9)                              |             |              | 7.24%         | 3.84%  | 3.58%  |

Note [1]: Performance shown is gross of fees with the exception of convertible bonds and absolute return, which are shown net of fees.

Note [2]: Returns are stated in traditional total return terms and do not specify realized income.

Note [3]: The numbers contained in the parentheses after the manager names and index names correspond, indicating the appropriate benchmark for each investment.

Note [4]: Performance for Private Equity and Value-Added Real Estate investments is calculated on an IRR basis.

Note [5]: Market values for non-core real estate and private equity are on a one-quarter lag due to available valuations. However, Investment (Cost) Values are not lagged.

Note [6]: First Quadrant market value shown represents cash held as collateral. Performance shown is calculated based on a notional principle of \$500 million.

## MARKET PERFORMANCE (continued)

### SUMMARY ANALYSIS - ALL INVESTMENTS

| Manager/Investment Type                           | FY 08      |              | Market Return |        |              |
|---|------------|--------------|---------------|--------|--------------|
|   | Cost Basis | Market Value | FY08          | 3 Year | 5 Year       |
| <b><u>Convertible Bonds</u></b>                   |            |              |               |        |              |
| Nicholas Applegate (10)                           | \$257.16   | \$259.15     | 0.06%         | 10.76% | 11.64%       |
| <b><u>Convertible Bond Indices</u></b>            |            |              |               |        |              |
| ML All Quality Convertible (10)                   |            |              | -6.36%        | 5.75%  | 6.89%        |
| <b><u>Cash &amp; Cash Equivalents</u></b>         |            |              |               |        |              |
| JP Morgan Asset Mgmt                              |            |              |               |        |              |
| Operating Funds/Short-Term (11)                   |            | \$744.54     | 4.09%         | 4.62%  | 3.42%        |
| Extended Cash (12)                                |            | 163.41       | 5.67%         | 4.65%  | 3.39%        |
| Total Cash Management                             | \$904.20   | \$907.95     |               |        |              |
| <b><u>Cash &amp; Cash Equivalents Indices</u></b> |            |              |               |        |              |
| 90 Day U.S. T-Bills (11)                          |            |              | 3.63%         | 4.27%  | 3.18%        |
| JP Morgan Blended Index (12)                      |            |              | 7.13%         | 5.40%  | 3.79%        |
| <b><u>Private Equity</u></b>                      |            |              |               |        |              |
| Cheyenne Capital Fund, LP (13)                    | \$127.47   | \$303.79     |               |        | SEE NOTE [4] |
| Access Venture Partner II (13)                    | \$1.19     | \$0.96       |               |        | SEE NOTE [4] |
| Total Private Equity                              | \$128.66   | \$304.75     |               |        |              |
| <b><u>Private Equity Indices</u></b>              |            |              |               |        |              |
| S&P 500 + 5% (13)                                 |            |              | -8.78%        | 9.63%  | 12.96%       |
| <b><u>Real Estate</u></b>                         |            |              |               |        |              |
| Clarion Core (14)                                 | \$141.30   | \$165.22     | 10.77%        | N/A    | N/A          |
| UBS Core (14)                                     | 141.30     | 150.93       | 5.27%         | N/A    | N/A          |
| TA Realty Value-Added (15)                        | 12.00      | 12.40        |               |        | SEE NOTE [4] |
| Heitman Value-Added (15)                          | 2.43       | 1.94         |               |        | SEE NOTE [4] |
| Total Real Estate                                 | \$297.04   | \$330.49     |               |        |              |
| <b><u>Real Estate Indices</u></b>                 |            |              |               |        |              |
| NCREIF ODCE(14)                                   |            |              | 8.01%         | 14.85% | 14.55%       |
| NCREIF Property (15)                              |            |              | 9.20%         | 14.96% | 14.72%       |
| <b><u>Absolute Return</u></b>                     |            |              |               |        |              |
| PAMMCO (16)                                       | \$100.00   | \$103.07     | N/A           | N/A    | N/A          |
| Harris Alternatives (16)                          | 100.00     | 98.11        | N/A           | N/A    | N/A          |
| Total Absolute Return                             | \$200.00   | \$201.18     |               |        |              |
| <b><u>Absolute Return Indices</u></b>             |            |              |               |        |              |
| HFN FoF Multi-Strat (16)                          |            |              | 0.34%         | 7.91%  | 7.46%        |
| <b><u>Overlay Strategies</u></b>                  |            |              |               |        |              |
| First Quadrant                                    | \$29.73    | \$29.90      | 2.62%         | 1.39%  | N/A          |
| <b><u>Wyoming Investments</u></b>                 |            |              |               |        |              |
|   | \$298.19   | \$298.19     | N/A           | N/A    | N/A          |

Note [1]: Performance shown is gross of fees with the exception of convertible bonds and absolute return, which are shown net of fees.

Note [2]: Returns are stated in traditional total return terms and do not specify realized income.

Note [3]: The numbers contained in the parentheses after the manager names and index names correspond, indicating the appropriate benchmark for each investment.

Note [4]: Performance for Private Equity and Value-Added Real Estate investments is calculated on an IRR basis.

Note [5]: Market values for non-core real estate and private equity are on a one-quarter lag due to available valuations. However, Investment (Cost) Values are not lagged.

Note [6]: First Quadrant market value shown represents cash held as collateral. Performance shown is calculated based on a notional principle of \$500 million.

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**INCOME EARNINGS RECOGNIZED ON INVESTMENTS**  
**During Fiscal Year 2008**  
**July 2007 through June 2008**

|  | <u>INVESTMENT<br/>INCOME<br/>DIVIDENDS/INTEREST</u> | <u>REALIZED NET<br/>CAPITAL<br/>GAINS/(LOSSES)</u> | <u>TOTAL<br/>INVESTMENT<br/>INCOME<br/>RECEIVED</u> |
|--|---|--|---|
| Permanent Mineral Trust Fund                 | \$139,876,267.90                                    | \$189,408,567.63                                   | \$329,284,835.53                                    |
| Common School Permanent Land Fund            | 54,263,763.84                                       | 82,856,983.94                                      | 137,120,747.78                                      |
| University Permanent Land Fund               | 548,376.18  | 908,196.59   | 1,456,572.77  |
| Remaining Permanent Land Funds:              |   |  |   |
| - Miner's Hospital Permanent Land Fund       | 1,260,889.05  | 1,811,933.53                                       | 3,072,822.58  |
| - Public Buildings @ Cap Permanent Land Fund | 132,471.59  | 190,365.46   | 322,837.05  |
| - Fish Hatchery Permanent Land Fund          | 9,617.84  | 13,821.10  | 23,438.94   |
| - D.D. & B. Permanent Land Fund              | 85,325.07   | 122,614.56   | 207,939.63  |
| - Carey Act Permanent Land Fund              | 34,182.76   | 49,121.59  | 83,304.35   |
| - Omnibus Permanent Land Fund                | 683,737.92  | 982,550.89   | 1,666,288.81  |
| - State Hospital Permanent Land Fund         | 85,347.50   | 122,646.79   | 207,994.29  |
| - State Training School Permanent Land Fund  | 35,974.31   | 51,696.11  | 87,670.42   |
| - Penitentiary Permanent Land Fund           | 153,290.70  | 220,283.11   | 373,573.81  |
| - Agriculture College Permanent Land Fund    | 257,729.03  | 370,363.99   | 628,093.02  |
| Hathaway Scholarship Endowment Fund          | 15,025,395.17                                       | 2,268,698.75                                       | 17,294,093.92                                       |
| Higher Education Endowment Fund              | 3,988,404.78  | 604,415.70   | 4,592,820.48  |
| Worker's Compensation Fund                   | 46,338,917.86                                       | 9,808,115.59                                       | 56,147,033.46                                       |
| Tobacco Settlement Fund                      | 2,874,425.73  | 411,639.41   | 3,286,065.14  |
| State Agency Pool                            | <u>150,565,634.25</u>                               | <u>16,983,343.64</u>                               | <u>167,548,977.89</u>                               |
| <b>TOTAL</b>                                 | <b>\$416,219,751.50</b>                             | <b>\$307,185,358.37</b>                            | <b>\$723,405,109.87</b>                             |

Note: The income figures above include interest, dividends and capital gains realized by investment managers as part of their regular management of the State's portfolio. For FY 08, income also includes capital gains realized when the State Treasurer implemented asset allocation rebalancing for the first time. The State Treasurer sold portions of the S& P 500 US large cap and the international portfolios to bring their percentage holding back in line with their target allocations. The rebalancing transaction resulted in \$133.3 million in additional capital gains.

# PERMANENT WYOMING MINERAL TRUST FUND

Fiscal Years 04 through 08 Analyzed and Compared

(\$ Millions)

|  | <u>FY 04</u> | <u>FY 05</u> | <u>FY 06</u> | <u>FY 07</u> | <u>FY 08</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| Beginning Book Value                   | \$2,057.6    | \$2,252.4    | \$2,472.6    | \$2,968.4    | 3,329.5      |
| Beginning Market Value                 | 2,050.8      | 2,218.2      | 2,557.8      | 3,070.6      | 3,728.1      |
| -Difference                            | (6.8)        | (34.2)       | 85.2         | 102.2        | 398.6        |
| -Percent                               | -0.3%        | -1.5%        | 3.4%         | 3.4%         | 12.0%        |
| <br>                                   |              |              |              |              |              |
| Additions to Corpus                    | \$194.8      | \$220.2      | \$495.8      | \$361.0      | \$567.1      |
| -Constitutional Severance Tax 1.5% Dep | 144.8        | 168.6        | 243.6        | 193.1        | 213.6        |
| -Add'l Severance Tax 1%                |              |              | 162.4        | 128.7        | 142.4        |
| -Additional Legislative Deposits       | 50.0         | 51.6         | 89.9         | 20.0         | 40.0         |
| -Spending Policy Reversions            |              |              |              | 19.2         | 171.1        |
| <br>                                   |              |              |              |              |              |
| Ending Book Value                      | \$2,252.4    | \$2,472.6    | \$2,968.4    | \$3,329.5    | \$3,896.6    |
| Ending Market Value                    | 2,218.2      | 2,557.8      | 3,070.6      | 3,728.1      | 4,135.4      |
| -Difference                            | (34.2)       | 85.2         | 102.2        | 398.6        | 238.9        |
| -Percent                               | -1.5%        | 3.4%         | 3.4%         | 12.0%        | 6.1%         |
| <br>                                   |              |              |              |              |              |
| Total Income (gross of fees)           | \$102.9      | \$90.6       | \$127.9      | \$156.7      | \$329.3      |
| -Interest                              | 90.6         | 77.1         | 81.1         | 87.4         | 101.5        |
| -Dividend                              | 4.9          | 11.1         | 19.8         | 31.8         | 38.4         |
| -Realized Capital Gain (or Loss)       | 7.4          | 2.4          | 26.9         | 37.6         | 189.4        |
| <br>                                   |              |              |              |              |              |
| Change in Book Value                   | \$194.8      | \$220.2      | \$495.8      | \$361.0      | \$567.1      |
| Change in Market Value                 | 167.3        | 339.6        | 512.9        | 657.5        | 407.3        |
| <br>                                   |              |              |              |              |              |
| Cash Yield                             | 4.76%        | 3.87%        | 4.81%        | 4.96%        | 9.02%        |
| Total Return                           | 3.51%        | 8.40%        | 6.62%        | 14.83%       | 2.44%        |

1. Note: "Total Income" is spendable investment income including dividends, interest and realized capital gains. "Total Return" is comprised of dividends, interest and realized and unrealized capital gains. The Treasurer's Office calculates the "Cash Yield" return above based on average book value. RV Kuhns calculates total return based on the time-weighted rate of return - essentially compounded growth.

2. "Ending Book Values" from FY04 through FY06 do not correspond to prior year reports due to corrections made to "Spending Policy Reversions" in FY08.

**PERMANENT WYOMING MINERAL TRUST FUND: CORPUS**  
**Revenue Receipts Fiscal Year 2008**

|   | <u>JUNE 30, 2007</u><br><u>CORPUS BALANCE</u> | <u>REVENUE</u>                 | <u>JUNE 30, 2008</u><br><u>CORPUS BALANCE</u> |
|---|---|--------------------------------|---|
| Beginning Balance                             | \$3,341,617,499.26                            |                                |   |
| Severance Tax                                 |   |                                |   |
| Coal  |   | 80,094,202.43                  |   |
| Stripper Oil                                  |   | 20,053,420.39                  |   |
| Other Valuable Products                       |   | -390,621.66                    |   |
| Oil   |   | 47,599,777.50                  |   |
| Natural Gas                                   |   | 195,880,612.00                 |   |
| Condensate-Gas                                |   | 12,735,368.72                  |   |
| Tertiary-Oil                                  |   | 15,693.64                      |   |
| Wildcat Oil                                   |   | 7.79                           |   |
| Per Session Laws 2007 Ch136, Sec 300, (b)(ii) |   | 40,000,000.00                  |   |
| Spending Policy Calculation WS 9-4-719        |   | 171,125,138.11                 |   |
| Prior Year Adjustment                         |   | <u>-12,109,656.00</u>          |   |
| <b>TOTAL REVENUE ADDED TO CORPUS</b>          |   | <b><u>\$555,003,942.92</u></b> |   |
|   |   |                                | <b><u>\$3,896,621,442.18</u></b>              |

**COMMON SCHOOL PERMANENT LAND FUND**  
**Fiscal Years 04 through 08 Analyzed and Compared**

*(\$ Millions)*

|                                  | <u>FY 04</u> | <u>FY 05</u> | <u>FY 06</u> | <u>FY 07</u> | <u>FY 08</u> |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Beginning Book Value             | \$1,006.5    | \$1,076.2    | \$1,164.9    | \$1,318.6    | \$1,466.2    |
| Beginning Market Value           | 1,013.9      | 1,014.3      | 1,165.2      | 1,371.6      | 1,676.7      |
| -Difference                      | 7.3          | (61.9)       | 0.4          | 53.1         | 210.5        |
| -Percent                         | 0.7%         | -5.7%        | 0.0%         | 4.0%         | 14.4%        |
| <br>                             |              |              |              |              |              |
| Additions to Corpus              | \$69.6       | \$88.7       | \$153.7      | \$147.7      | \$216.5      |
| -Sales, Royalties, Leases, etc.  | 66.0         | 88.4         | 153.7        | 147.7        | 161.3        |
| -Additional Legislative Deposits | 1.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| -Spending Policy Reversions      | 2.6          | 0.2          | 0.0          | 0.0          | 55.1         |
| <br>                             |              |              |              |              |              |
| Ending Book Value                | \$1,076.2    | \$1,164.9    | \$1,318.6    | \$1,466.2    | \$1,682.7    |
| Ending Market Value              | 1,014.3      | 1,165.2      | 1,371.6      | 1,676.7      | 1,766.0      |
| -Difference                      | (61.9)       | 0.4          | 53.1         | 210.5        | 83.3         |
| -Percent                         | -5.7%        | 0.0%         | 4.0%         | 14.4%        | 5.0%         |
| <br>                             |              |              |              |              |              |
| Total Income (gross of fees)     | \$50.7       | \$52.7       | \$55.9       | \$68.5       | \$137.1      |
| -Interest                        | 43.2         | 38.6         | 37.6         | 36.1         | 37.7         |
| -Dividend                        | 2.7          | 5.7          | 9.0          | 13.8         | 16.5         |
| -Realized Capital Gain (or Loss) | 4.8          | 8.3          | 9.3          | 18.6         | 82.9         |
| <br>                             |              |              |              |              |              |
| Change in Book Value             | \$69.6       | \$88.7       | \$153.7      | \$147.7      | \$216.5      |
| Change in Market Value           | 0.4          | 150.9        | 206.4        | 305.1        | 89.3         |
| <br>                             |              |              |              |              |              |
| Cash Yield                       | 5.01%        | 4.87%        | 4.59%        | 4.98%        | 9.51%        |
| Total Return                     | 4.84%        | 8.66%        | 6.02%        | 14.87%       | 2.27%        |

1. Note: "Total Income" is spendable investment income including dividends, interest and realized capital gains. "Total Return" is comprised of dividends, interest and realized and unrealized capital gains. The Treasurer's Office calculates the "Cash Yield" return above based on average book value. RV Kuhns calculates total return based on the time-weighted rate of return - essentially compounded growth.

2. "Ending Book Values" from FY04 through FY07 do not correspond to prior year reports due to corrections made to "Spending Policy Reversions" in FY08.

**PERMANENT LAND FUND: CORPUS**  
**Revenue Receipts Fiscal Year 2008**

| <u>FUND/ACCOUNT NAME</u>  | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> | <u>REVENUE</u>       | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> |
|---|---|----------------------|---|
| <u>L01 MINER'S HOSPITAL</u>   |   |                      |   |
| Beginning Balance   | \$33,771,863.39                         |                      |   |
| Oil & Gas Lease Royalties   |   | 643,802.32           |   |
| Sodium & Trona Lease Royalties  |   | 2,110,947.43         |   |
| Right-of-Way Easements  |   | 256.85               |   |
| Surface Damage  |   | 476.80               |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)                     |   | <u>927,037.65</u>    |   |
|   |   | 3,682,521.05         | <u>\$37,454,384.44</u>                  |
| <u>L02 PUBLIC BUILDINGS AT CAPITOL</u>                                  |   |                      |   |
| Beginning Balance   | \$3,946,707.98                          |                      |   |
| Oil & Gas Lease Royalties   |   | 835,966.78           |   |
| Sand & Gravel Royalties   |   | 8,553.08             |   |
| Right-of-Way Easements  |   | 69,307.48            |   |
| Surface Damage  |   | 16,872.35            |   |
| Prior Year Adjustment   |   | -1,024,762.73        |   |
| Real Estate-Sales   |   | 7,473.32             |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)                     |   | <u>108,337.13</u>    |   |
|   |   | 21,747.41            | <u>\$3,968,455.39</u>                   |
| <u>L03 FISH HATCHERY</u>  |   |                      |   |
| Beginning Balance   | \$240,729.77                            |                      |   |
| Oil & Gas Lease Royalties   |   | 830.70               |   |
| Right-of-Way Easements  |   | 105,388.00           |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)                     |   | <u>6,608.03</u>      |   |
|   |   | 112,826.73           | <u>\$353,556.50</u>                     |
| <u>L04 COMMON SCHOOL (1)(2)</u>   |   |                      |   |
| Beginning Balance   | \$1,462,344,388.66                      |                      |   |
| Bentonite Lease Royalties   |   | 392,295.46           |   |
| Coal Lease Royalties  |   | 4,788,090.78         |   |
| Liquidated Damages  |   | 30,000.00            |   |
| Miscellaneous Mineral Lease Royalties                                   |   | 48,751.36            |   |
| Oil & Gas Lease Royalties   |   | 144,584,470.49       |   |
| Sand & Gravel Royalties   |   | 654,014.66           |   |
| Sodium & Trona Lease Royalties  |   | 10,218,715.97        |   |
| Right-of-Way Easements  |   | 1,278,061.86         |   |
| Uranium Lease Royalties   |   | -95.20               |   |
| Surface Damage  |   | 1,665,969.59         |   |
| Real Estate-Sales   |   | -2,803,512.15        |   |
| Prior Year Adjustment   |   | 1,024,762.73         |   |
| Spending Policy Calculation W.S. 9-4-719                                |   | 55,146,837.59        |   |
| Session Laws 2005, Ch 191, Sec 60; Session Laws<br>2006, Ch 35, Sec 308 |   | -547,028.00          |   |
| Prior Year Adjustment   |   | <u>-1,099,854.00</u> |   |
|   |   | 215,381,481.14       | <u>\$1,677,725,869.80</u>               |

| <u>FUND/ACCOUNT NAME</u>                                | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> | <u>REVENUE</u>    | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> |
|---|---|-------------------|---|
| <u>L14 COMMON SCHOOL II (1)(2)</u>                      |   |                   |   |
| Beginning Balance                                       | \$5,000,000.00                          | 0.00              |   |
|   |   | 0.00              | <u>\$5,000,000.00</u>                   |
| <u>L05 DEAF, DUMB &amp; BLIND</u>                       |   |                   |   |
| Beginning Balance                                       | \$2,226,118.59                          |                   |   |
| Oil & Gas Lease Royalties                               |   | 393,011.44        |   |
| Right-of-Way Easements                                  |   | 6,453.44          |   |
| Surface Damage  |   | 6,400.00          |   |
| Real Estate-Sales                                       |   | 0.00              |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)     |   | <u>61,106.96</u>  |   |
|   |   | 466,971.84        | <u>\$2,693,090.43</u>                   |
| <u>L06 CAREY ACT</u>                                    |   |                   |   |
| Beginning Balance                                       | \$928,629.62                            |                   |   |
| Bentonite Lease Royalties                               |   | 19,223.56         |   |
| Oil & Gas Lease Royalties                               |   | 116,312.95        |   |
| Real Estate-Sales                                       |   | 92,838.48         |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)     |   | <u>25,490.88</u>  |   |
|   |   | 253,865.87        | <u>\$1,182,495.49</u>                   |
| <u>L07 OMNIBUS</u>                                      |   |                   |   |
| Beginning Balance                                       | \$17,013,441.72                         |                   |   |
| Oil & Gas Lease Royalties                               |   | 3,868,064.51      |   |
| Sand & Gravel Royalties                                 |   | 257,435.86        |   |
| Right-of-Way Easements                                  |   | 116,383.21        |   |
| Surface Damage  |   | 49,789.29         |   |
| Reimburse from WY State Hospital (1998 Ch 30 Sec 3/048) |   | 802,112.44        |   |
| Real Estate-Sales                                       |   | 398,700.00        |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)     |   | <u>467,018.98</u> |   |
|   |   | 5,959,504.29      | <u>\$22,972,946.01</u>                  |
| <u>L08 WYOMING STATE HOSPITAL</u>                       |   |                   |   |
| Beginning Balance                                       | \$2,180,400.51                          |                   |   |
| Oil & Gas Lease Royalties                               |   | 576,990.51        |   |
| Real Estate-Sales                                       |   | 625.00            |   |
| Surface Damage  |   | 2,486.10          |   |
| Miscellaneous Private Source                            |   | 450.00            |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)     |   | <u>59,851.99</u>  |   |
|   |   | 640,403.60        | <u>\$2,820,804.11</u>                   |
| <u>L09 WYOMING STATE TRAINING SCHOOL</u>                |   |                   |   |
| Beginning Balance                                       | \$858,467.42                            |                   |   |
| Oil & Gas Lease Royalties                               |   | 347,654.52        |   |
| Sand & Gravel Royalties                                 |   | 113,407.53        |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b)     |   | 23,564.93         |   |
| Per 2000 Session Laws Ch 139 Sec 3/048                  |   | <u>13,331.92</u>  |   |
|   |   | 497,958.90        | <u>\$1,356,426.32</u>                   |

| <u>FUND/ACCOUNT NAME</u>                            | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> | <u>REVENUE</u>                 | <u>JUNE 30, 2008<br/>CORPUS BALANCE</u> |
|---|---|--------------------------------|---|
| <u>L10 WYOMING STATE PENITENTIARY</u>               |   |                                |   |
| Beginning Balance                                   | \$3,951,930.46                          |                                |   |
| Oil & Gas Lease Royalties                           |   | 868,373.05                     |   |
| Sand & Gravel Royalties                             |   | 11,576.13                      |   |
| Right-of-Way Easements                              |   | 12,683.90                      |   |
| Surface Damage                                      |   | 553.60                         |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b) |   | <u>108,480.49</u>              |   |
|   |   | 1,001,667.17                   | <u>\$4,953,597.63</u>                   |
| <u>L11 WYOMING STATE AGRICULTURAL COLLEGE (1)</u>   |   |                                |   |
| Beginning Balance                                   | \$6,952,687.71                          |                                |   |
| Oil & Gas Lease Royalties                           |   | 283,128.13                     |   |
| Right-of-Way Easements                              |   | 15,367.11                      |   |
| Surface Damage                                      |   | 51,309.85                      |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b) |   | <u>190,851.28</u>              |   |
|   |   | 540,656.37                     | <u>\$7,493,344.08</u>                   |
| <u>L12 WYOMING STATE UNIVERSITY (1)</u>             |   |                                |   |
| Beginning Balance                                   | \$15,363,692.63                         |                                |   |
| Oil & Gas Lease Royalties                           |   | 179,839.43                     |   |
| Right-of-Way Easements                              |   | 4,846.08                       |   |
| Surface Damage                                      |   | 5,087.57                       |   |
| Real Estate-Sales                                   |   | 88,417.60                      |   |
| Inflation Proofing Income Diversion W.S. 9-4-305(b) |   | <u>421,733.36</u>              |   |
|   |   | 699,924.04                     | <u>\$16,063,616.67</u>                  |
|   | <b>NET INCREASE IN CORPUS</b>           | <b><u>\$229,259,528.41</u></b> |   |

(1) These funds are not available for appropriation.

(2) Common School PLFund II is listed separately from the "main" fund because the investment income from the first \$5.0 million of the Express Pipeline Easement monies is to go to the Education Trust Fund, rather than to the Common School Income Fund. This fund is invested in the State Agency Pool.

Total Permanent Land Fund Corpus balances do not include June 2008 income (\$707,010.34) not yet distributed to the General Fund or appropriate income fund.

Revenue from above "sales" is the principal payment from the sale of state lands and from right-of-ways granted on state lands. "Royalties" are derived from oil and mineral leases on state lands..

**SPENDING POLICY: PERMANENT WYOMING MINERAL TRUST FUND (PWMTF)**  
**Prepared Fall 2008 - Spending Policy Recommendation**

last update 10/06/2008

W.S. 9-4-719 established annual spending policy amounts from the PWMTF (currently five percent (5%) of the average five (5) year rolling average market value) and created the PWMTF reserve account. To the extent earnings from the PWMTF exceed the five percent (5%) spending policy amount, the excess earnings flow to the PWMTF reserve account. If the balance in the reserve account reaches more than 75% of the spending policy amount, the excess in the reserve account is transferred to the corpus of the PWMTF.

The spending policy amount for fiscal year 2008 was \$136,254,892. Total PWMTF investment income for FY08 was \$321,357,789. Investment earnings in excess of this spending policy amount (\$185,102,897) was deposited into the PWMTF reserve account via a general fund appropriation. The fiscal year end balance in the reserve account exceeded 75% of this spending policy amount by \$171,125,137, thus this amount was transferred to the corpus of the PWMTF at the end of FY 2008.

The spending policy amount for fiscal year 2009 is \$157,100,790. Investment income for FY09 through FY12 will be updated once the October CREG forecast is released

| As of  | Total Market Value (a) | For FY | Rolling 5-year Average | Spending Policy Level | Spending Policy Amount | Investment Income | Investment Income over Spending Policy to Reserve Acct. | Legislative Appropriation | Year End Reserve Bal. Before Reversion | 75% of Spending Policy | Over 75% reverts to Corpus | Ending Reserve Balance |
|--------|------------------------|--------|------------------------|-----------------------|------------------------|-------------------|---|---------------------------|--|------------------------|----------------------------|------------------------|
| 7/1/97 | 1,396,009,173          | 1998   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/98 | 1,507,006,444          | 1999   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/99 | 1,540,767,270          | 2000   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/00 | 1,539,636,928          | 2001   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/01 | 1,755,553,508          | 2002   | 1,547,794,665          | 8.000%                | 123,823,573            | 90,510,496        | 0   |                           |  | 92,867,680             | 0                          |                        |
| 7/1/02 | 1,864,380,749          | 2003   | 1,641,468,980          | 7.625%                | 125,162,010            | 58,647,855        | 0   |                           |  | 93,871,507             | 0                          |                        |
| 7/1/03 | 2,050,845,569          | 2004   | 1,750,236,805          | 5.000%                | 87,511,840             | 98,110,315        | 10,598,475 (e)  |                           | 10,598,475                             | 65,633,881             | 0                          | 10,598,475             |
| 7/1/04 | 2,218,179,475          | 2005   | 1,885,719,246          | 5.000%                | 94,285,962             | 87,789,397        | 0   | 44,500,000                | 56,747,488 (b)                         | 70,714,472             | 0                          | 55,098,475 (c)         |
| 7/1/05 | 2,557,758,285          | 2006   | 2,089,343,517          | 5.000%                | 104,467,176            | 123,952,616       | 19,485,440 (e)  |                           | 74,583,915                             | 78,350,382             | 0                          | 74,583,915             |
| 7/1/06 | 3,070,623,840          | 2007   | 2,352,357,584          | 5.000%                | 117,617,879            | 150,487,083       | 32,869,204 (e)  |                           | 107,453,119                            | 88,213,409             | 19,239,709 (d)             | 88,213,409             |
| 7/1/07 | 3,728,082,077          | 2008   | 2,725,097,849          | 5.000%                | 136,254,892            | 321,357,789       | 185,102,897   |                           | 273,316,306                            | 102,191,169            | 171,125,137                | 102,191,169            |
| 7/1/08 | 4,135,435,366          | 2009   | 3,142,015,809          | 5.000%                | 157,100,790            |                   |   |                           |  |                        |                            |                        |
|        |                        |        |                        |                       |                        |                   | <b>Projected *</b>                                      |                           |  |                        |                            |                        |
|        |                        |        |                        |                       |                        | 130,600,000       | 0   |                           | 102,191,169                            | 117,825,593            | 0                          | 102,191,169            |
| 7/1/09 | 4,638,065,366          | 2010   | 3,625,992,987          | 5.000%                | 181,299,649            | 143,900,000       | 0   |                           | 102,191,169                            | 135,974,737            | 0                          | 102,191,169            |
| 7/1/10 | 5,009,665,366          | 2011   | 4,116,374,403          | 5.000%                | 205,818,720            | 156,500,000       | 0   |                           | 102,191,169                            | 154,364,040            | 0                          | 102,191,169            |
| 7/1/11 | 5,390,665,366          | 2012   | 4,580,382,708          | 5.000%                | 229,019,135            | 169,500,000       | 0   |                           | 102,191,169                            | 171,764,352            | 0                          | 102,191,169            |

Source: W.S. 9-4-719

\*Reflects January 2008 CREG estimates--these projections will be updated following the release of the October 2008 CREG forecast

**Notes:**

- (a) Total Market Value for FY09 & Prior are Actual Market Value and FY10 and beyond is based on Value Basis (book/cost value)
- (b) Reflects addition of \$1,649,014 realized earned income on reserve account.
- (c) Reflects balance following correction of \$1,649,014 realized earned income-transfer out to general fund.
- (d) Reflects \$12,109,656 reduction of reversion to corpus following correction of market values
- (e) Reflects reduction in amount to reserve following correction of market values--\$9,599,515 transferred back to general fund

## SPENDING POLICY: COMMON SCHOOL PERMANENT LAND FUND (CSPLF)

Prepared Fall 2008 - Spending Policy Recommendation

last update 10/06/2008

W.S. 9-4-719 established annual spending policy amounts from the CSPLF (currently five percent (5%) of the average five (5) year rolling average market value) and created the CSPLF reserve account. To the extent earnings from the CSPLF exceed the five percent (5%) spending policy amount, the excess earnings flow to the CSPLF reserve account. If the balance in the reserve account reaches more than 75% of the spending policy amount, the excess in the reserve account is transferred to the corpus of the CSPLF.

The spending policy amount for fiscal year 2008 was \$62,433,632. Total CSPLF investment income for FY08 was \$133,866,762. In FY08, investment earnings in excess of the spending policy amount (\$71,433,150) were deposited into the CSPLF reserve account via an appropriation from the school foundation program account from revenues the school foundation program account would otherwise have received from federal mineral royalty revenue over the \$200 million cap. The school foundation program, in turn, received a general fund appropriation in FY08 of \$56,514,455. (Prior to FY08, earnings in excess of the spending policy amount were deposited into the CSPLF reserve account via a general fund appropriation.) The fiscal year end balance in the reserve account exceeded 75% of this spending policy amount by \$55,146,837, thus this amount was transferred to the corpus of the CSPLF at the end of FY 2008.

The spending policy amount for fiscal year 2009 is \$69,955,134. Investment income for FY09 through FY12 will be updated once the October CREG forecast is released

| As of  | Total Market Value (a) | For FY | Rolling 5-year Average | Spending Policy Level | Spending Policy Amount | Investment Income | Investment Income over Spending Policy to Reserve Acct. | Legislative Appropriation | Year End Reserve Bal. Before Reversion | 75% of Spending Policy | Over 75% reverts to Corpus | Ending Reserve Balance |
|--------|------------------------|--------|------------------------|-----------------------|------------------------|-------------------|---|---------------------------|--|------------------------|----------------------------|------------------------|
| 7/1/97 | 782,431,215            | 1998   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/98 | 838,949,498            | 1999   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/99 | 857,362,587            | 2000   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/00 | 839,611,767            | 2001   |                        |                       |                        |                   |   |                           |  |                        |                            |                        |
| 7/1/01 | 899,161,216            | 2002   | 843,503,257            | 8.200%                | 69,167,267             | 37,700,000        | 0   |                           | 51,875,450                             |                        | 0                          |                        |
| 7/1/02 | 930,348,643            | 2003   | 873,086,742            | 7.825%                | 68,319,038             | 36,070,760        | 0   |                           | 51,239,278                             |                        | 0                          |                        |
| 7/1/03 | 1,013,895,764          | 2004   | 908,075,995            | 5.000%                | 45,403,800             | 48,190,294        | 2,786,494 (e)   |                           | 2,786,494                              | 34,052,850             | 0                          | 2,786,494              |
| 7/1/04 | 1,014,318,667          | 2005   | 939,467,211            | 5.000%                | 46,973,361             | 51,092,246        | 4,118,885 (e)   | 30,000,000                | 37,852,862 (b)                         | 35,230,020             | 2,622,841 (d)              | 34,282,538 (c)         |
| 7/1/05 | 1,165,218,792          | 2006   | 1,004,588,616          | 5.000%                | 50,229,431             | 53,845,180        | 3,615,749 (e)   |                           | 37,898,288                             | 37,672,073             | 226,214 (d)                | 37,672,073             |
| 7/1/06 | 1,371,627,543          | 2007   | 1,099,081,882          | 5.000%                | 54,954,094             | 65,520,931        | 10,566,837 (e)  | (13,500,000)              | 30,538,910                             | 41,215,571             | 0                          | 30,538,910             |
| 7/1/07 | 1,678,302,393          | 2008   | 1,248,672,632          | 5.000%                | 62,433,632             | 133,866,782       | 71,433,150  | (4,200,000)               | 101,972,060                            | 46,825,224             | 55,146,837                 | 46,825,224             |
| 7/1/08 | 1,766,046,029          | 2009   | 1,399,102,685          | 5.000%                | 69,955,134             |                   |   |                           |  |                        |                            |                        |
|        |                        |        |                        |                       | <b>Projected *</b>     |                   |   |                           |  |                        |                            |                        |
|        |                        |        |                        |                       |                        | 54,500,000        | 0   |                           | 46,825,224                             | 52,466,351             | 0                          | 46,825,224             |
| 7/1/09 | 2,002,392,829          | 2010   | 1,596,717,517          | 5.000%                | 79,835,876             | 59,500,000        | 0   |                           | 46,825,224                             | 59,876,907             | 0                          | 46,825,224             |
| 7/1/10 | 2,203,192,829          | 2011   | 1,804,312,325          | 5.000%                | 90,215,616             | 64,200,000        | 0   |                           | 46,825,224                             | 67,661,712             | 0                          | 46,825,224             |
| 7/1/11 | 2,384,192,829          | 2012   | 2,006,825,382          | 5.000%                | 100,341,269            | 68,800,000        | 0   |                           | 46,825,224                             | 75,255,952             | 0                          | 46,825,224             |

\*Reflects January 2008 CREG estimates--these projections will be updated following the release of the October 2008 CREG forecast

Source: W.S. 9-4-719

- (a) Total Market Value for FY09 & Prior are Actual Market Value and FY10 and beyond is based on Value Basis (book/cost value)
- (b) Reflects addition of \$947,482 realized earned income on reserve account.
- (c) Reflects balance following correction of \$947,482 realized earned income-transfer out to CSPLF income fund.
- (d) Reflects reduction in amount to revert to corpus following correction of market values--\$1,099,854 transferred back to reserve
- (e) Reflects reduction in amount to reserve following correction of market values--\$1,076,494 transferred back to general fund

**SPENDING POLICY: HIGHER EDUCATION ENDOWMENT (Higher Ed)**  
**Prepared Fall 2008 - Spending Policy Recommendation**

last update 10/06/2008

W.S. 9-4-719 established annual spending policy amounts from the Higher Ed fund (currently five percent (5%) of the average five (5) year rolling average market value) and created the Higher Ed reserve account. To the extent investment earnings from the Higher Education Endowment fund exceed the five percent (5%) spending policy amount, the excess earnings flow to the Higher Ed reserve account. If the investment earnings from the Higher Education Endowment fund are less than the five percent (5%) spending policy amount, an amount equal to the difference is taken from the Higher Ed reserve account and distributed to the University of Wyoming and seven community college foundations in accordance with W.S. 21-16-1201.

The spending policy amount for fiscal year 2008 was \$3,181,198. Total investment income from the Higher Education Endowment fund for FY08 was \$4,474,394. In FY08, investment earnings in excess of the spending policy amount (\$1,293,196) were deposited into the Higher Ed reserve account. The 2008 fiscal year end balance in the reserve account did not exceed 75% of this spending policy amount, thus no funds flowed from the reserve account to corpus of the Higher Education Endowment fund.

The spending policy amount for fiscal year 2009 is \$3,867,815. Investment income for FY09 through FY12 will be updated once the October CREG forecast is released.

| As of  | Total Market Value | For FY | Rolling 5-year Average | Spending Policy Level | Spending Policy Amount | Investment Income | Earnings over 5% of spending policy amount to Reserve Acct | Earnings less than 5% of spending policy from Reserve Acct to be distributed | Year End Reserve Bal Before Reversion to Corpus | 75% of Spending Policy | Over 75% reverts to Corpus | Ending Reserve Balance |
|--------|--------------------|--------|------------------------|-----------------------|------------------------|-------------------|--|--|---|------------------------|----------------------------|------------------------|
| 7/1/05 | 929,697 (a)        | 2006   |                        | 5.000%                | 0.00                   | 0                 | 0  |  | 0   | 0                      | 0                          | 0                      |
| 7/1/06 | 48,379,952 (a)     | 2007   | 48,379,952             | 5.000%                | 2,418,998              | 726,921           | 0  |  | 0   | 1,814,248              | 0                          | 0                      |
| 7/1/07 | 78,867,967 (a)     | 2008   | 63,623,960             | 5.000%                | 3,181,198              | 4,474,394         | 1,293,196  |  | 1,293,196                                       | 2,385,898              | 0                          | 1,293,196              |
| 7/1/08 | 104,820,958 (b)    | 2009   | 77,356,292             | 5.000%                | 3,867,815              |                   |  |  |   |                        |                            |                        |
|        |                    |        |                        |                       |                        | <b>Projected*</b> |  |  |   |                        |                            |                        |
|        |                    |        |                        |                       |                        | 3,680,000         | 0  | (187,815)  | 1,105,381                                       | 0                      | 1,105,381                  | 1,105,381              |
| 7/1/09 | 105,000,000 (c)    | 2010   | 84,267,219             | 5.000%                | 4,213,361              | 3,565,000         | 0  | (648,361)  | 457,020   | 3,160,021              | 0                          | 1,102,397              |
| 7/1/09 | 105,000,000 (c)    | 2011   | 88,413,775             | 5.000%                | 4,420,689              |                   |  |  |   |                        |                            |                        |

\* January CREG projections--these figures will be updated following release of the October CREG forecast

Source: W.S. 9-4-719

Notes:

(a) Total Market Value for FY06 - FY08 are based on Higher Ed portion of SAP market value

(b) Total Market Value for FY09 is based on actual market value

(c) Total Market Value is based on Value Basis (book/cost value)

Spending Policy began 07/01/06

**RESERVE ACCOUNT: HATHAWAY SCHOLARSHIP ENDOWMENT**  
**2008 FISCAL YEAR ENDING 06-30-08**

last update 10/06/2008

W.S. 21-16-1302 established the Hathaway student scholarship reserve account. All unexpended and unencumbered monies within the Hathaway scholarship expenditure account at the end of each fiscal year are deposited into the Hathaway student scholarship reserve account. To the extent funds within the Hathaway scholarship expenditure account are not sufficient in any fiscal year to fully fund scholarships awarded pursuant to 21-16-1304 through 21-16-1306, monies are transferred from the reserve account to the expenditure account for distribution to eligible institutions to fund scholarships. At the end of each fiscal year, if funds in the reserve account are in more than the greater of \$12 million or the amount equal to 3.75% of the previous five year average market value of the Hathaway scholarship endowment fund (corpus) the excess is transferred to corpus on June 30, 2008.

During FY08, \$1,717,263 was transferred out of the Hathaway reserve to the Hathaway expenditure account to fully fund scholarships awarded during the fiscal year. At the end of FY08, a total of \$9,551,260 was transferred from the Hathaway scholarship expenditure account to the Hathaway student scholarship reserve account and \$19,252,450 was transferred from the Hathaway reserve account to the corpus of the Hathaway Scholarship Endowment fund leaving a balance of \$12,000,000 in the Hathaway reserve account on 06-30-08.

| HATH<br>as of<br>7/1 | For<br>FY | Total HATH<br>Investments<br>at MARKET | Rolling 5 Year<br>Average | Percentage<br>in Statute | 3.75% of<br>5 Yr Avg | Statutory<br>Amount | X<br>Greater of the<br>3.75% or Stat Amt                | Transfers into<br>Reserve<br>from Expenditure<br>Account | Transfers from<br>Reserve<br>to Expenditure<br>Account<br>(for scholarships) | Cash Balance<br>of Reserve<br>(after transfers) | Amount<br>Reverts<br>to Corpus | 6/30<br>Ending Cash<br>Balance of<br>Reserve s/be |
|----------------------|-----------|--|---------------------------|--------------------------|----------------------|---------------------|---|--|--|---|--------------------------------|---|
|                      |           |  |                           | 21-16-1302 (b)           |                      |                     | Comparison of<br>statutory amt and<br>3.75% of 5 Yr Avg |  |  |   |                                |   |
| 2005                 | FY06      | 3,397,432 (a)                          | 3,397,432                 |                          |                      |                     |   |  |  |   |                                |   |
| 2006                 | FY07      | 210,027,477 (a)                        | 106,712,454               |                          |                      |                     |   | 23,418,453   | 0  | 23,418,453                                      | 0                              | 23,418,453  |
| 2007                 | FY08      | 298,312,993 (a)                        | 170,579,301               | 3.75%                    | 6,396,724            | 12,000,000          | 12,000,000  | 9,551,260  | (1,717,263)  | 31,252,450                                      | (19,252,450)                   | 12,000,000  |
| 2008                 | FY09      | 417,997,280 (b)                        | 232,433,795               | 3.75%                    | 8,716,267            | 12,000,000          | 12,000,000  |  | (846,086) (d)  |   |                                |   |
|                      |           | <b>Projected*</b>                      |                           |                          |                      |                     |   |  |  |   |                                |   |
| 2009                 | FY10      | 419,252,450 (c)                        | 337,246,908               | 3.75%                    | 12,646,759           | 12,000,000          | 13,064,018  |  |  |   |                                |   |
| 2010                 | FY11      | 419,252,450 (c)                        | 441,210,662               | 3.75%                    | 16,545,400           | 12,000,000          | 17,368,150  |  |  |   |                                |   |
| 2011                 | FY12      | 419,252,450 (c)                        | 493,516,906               | 3.75%                    | 18,506,884           | 12,000,000          | 19,735,126  |  |  |   |                                |   |

\* January CREG projections--these figures will be updated following release of the October CREG forecast

Source: W.S. 21-16-1302(b)

Notes:

- (a) Total Market Value for FY06 - FY08 are based on Hathaway portion of SAP market value
- (b) Total Market Value for FY09 is based on actual market value
- (c) Total Market Value for FY10 and beyond is based on Value Basis (book/cost value)
- (d) Reflects net transfer-two colleges requested payment for full fall enrollment estimate rather than 75% of estimate

First transfer from Reserve to Corpus at end of FY08 (if sufficient Cash Balance in Expenditure Account)

## **INTERFUND BORROWING SCHOOL FOUNDATION PROGRAM**

For several years the state has issued tax and revenue anticipation notes (TRANs), as authorized by W.S. 9-4-1101 through 9-4-1105, to fund temporary cash flow shortfalls in the School Foundation Fund in order to make school foundation program payments to Wyoming school districts as required by Wyoming Statutes. During fiscal year 2008, school foundation program payments were made by temporary interfund borrowing from the corpus of the Common School Permanent Land Fund (CSPLF) at 6% interest as allowed by W.S. 21-13-316.

A cash flow analysis spreadsheet is included on the following page that shows the schedule of actual revenue receipts for FY08, the schedule of statutory school foundation payments and the incorporation of interfund borrowing from and repayment to the CSPLF for fiscal year 2008.

Interest payments from the school foundation program for this interfund borrowing totaling \$4,565,834 for FY08. The amount of interest paid to the Common School Permanent Land Fund account was reported as income to the account to be distributed among all school districts during FY 09 as provided by Wyoming Statute.

There are several reasons for the lack of liquidity to make scheduled school foundation program payments. They include timing of receipt of revenues primarily from federal mineral royalties and ad valorem taxes and the statutory schedule of payments to school districts which distributes the majority of foundation program revenues towards the front end of the school year. As illustrated on the cash flow analysis spreadsheet, revenue shortfalls to the school foundation account occur primarily in August, October and February of each year.

The State Treasurer could also use the provisions of W.S. 9-1-417, which allows utilization of loans from the general fund or budget reserve account, up to \$60 million, to assist in meeting the cash flow needs for obligations of the school foundation program which come due prior to the receipt of program revenues. Loans from the general fund must be repaid as soon as anticipated revenue is received.

Liquidity needs were built into the state's investment asset allocation plan for the CSPLF for fiscal year 2008. To ensure liquidity needs are met, the CSPLF portfolio held a larger portion of its assets in cash and short-term bonds than held by the Permanent Wyoming Mineral Trust Fund.

Interfund borrowing will again be used to fund the cash flow for the school foundation program during fiscal year 2009.

**State of Wyoming**  
**School Foundation Account - with CSPLF Borrowing**  
**FISCAL YEAR 2008**  
**Final Cash Flow - 13th Period**

|   | Actual<br>July 07 | Actual<br>Aug 07     | Actual<br>Sept 07   | Actual<br>Oct 07     | Actual<br>Nov 07   | Actual<br>Dec 07   | Actual<br>Jan 08   | Actual<br>Feb 08     | Actual<br>Mar 08   | Actual<br>Apr 08   | Actual<br>May 08   | Actual<br>Jun 08   | Year End<br>Adj Pd<br>(13th Pd 08) | FY08 Totals          | LSO & CREG<br>FY08 Estimates<br>Jan 08 |
|---|-------------------|----------------------|---------------------|----------------------|--------------------|--------------------|--------------------|----------------------|--------------------|--------------------|--------------------|--------------------|------------------------------------|----------------------|--|
| Beginning Balance                                     | 212,173,913       | 223,061,266          | 35,836,868          | (18,167,204)         | 6,741,723          | 4,093,079          | 613,705            | 17,775,784           | 112,718            | 169,128            | 1,584,227          | 1,572,061          | 318,527,483                        | 212,173,913          | 116,538,088                            |
| Revenues and Transfers                                |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    |                      |  |
| Auto Tax 1101   | 307,177           | 139,114              | 4,836,512           | 7,692,768            | 1,931,205          | 801,562            | 1,871,961          | 1,225,448            | 405,966            | 159,509            | 591,136            | 142,779            |                                    | 20,105,138           | 17,500,000                             |
| Car Company Tax 1102                                  | 233,719           | 62,708               | 43,491              | 56,020               |                    |                    |                    |                      | 9,506              |                    |                    |                    |                                    | 405,444              | 450,000                                |
| Property Tax 1105                                     | 3,726,397         | 2,010,425            | 339,446             | 3,617,753            | 46,318,609         | 66,472,359         | 23,487,643         | 5,326,620            | 2,082,094          | 1,875,526          | 41,948,399         | 61,501,485         |                                    | 258,706,755          | 257,895,209                            |
| Penalty-Delinq taxes 3302                             |                   |                      | 140                 | 3,120                | 8,790              | 560                | 480                |                      |                    |                    |                    |                    |                                    | 18,600               |  |
| Federal Mineral Royalty 4201 (under 200mm)            | 7,392,000         | 7,392,000            | 7,392,000           | 7,392,000            | 6,618,258          |                    | 13,236,516         | 6,618,258            |                    |                    |                    |                    | 6,189,934                          | 88,703,998           | 249,600,000                            |
| FMR 4201 (over 200mm)                                 |                   | 42,999,641           |                     |                      |                    |                    | 10,832,559         |                      |                    |                    |                    |                    |                                    | 102,023,753          | 233,130,521                            |
| FMR 4201-FY07 True-up over 200mm                      |                   |                      | (58,821,106)        |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    | (58,821,106)         |  |
| FMR 4201-to Hathaway/Higher Ed (H & HE)               |                   |                      |                     |                      |                    |                    | (40,224,001)       |                      |                    | (28,316,928)       |                    |                    |                                    | (68,540,929)         |  |
| Coal Lease Bonus - from School Cap Con 6404           |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    | 17,935,582                         | 17,935,582           |  |
| Comm School Income Fund (Trsrfer from) 6404           |                   |                      |                     |                      |                    |                    | 84,434,363         |                      |                    |                    |                    |                    | 76,941,910                         | 161,376,273          | 117,000,000                            |
| Interest - WY Municipalities 4510                     | 57,817            | 113,822              | 26,797              | 133,878              | 29,071             | 205,466            | 63,065             | 74,343               | 100,459            | 12,245             | 8,675              | 36,430             |                                    | 862,068              | 2,650,000                              |
| Interest - Investments 4601,4643                      |                   | 665,441              | 247,174             | 162,346              | 1,335              | 76,128             | 260,480            | 350,647              | 49,644             | 5,654              | 182,931            | 71,058             | 323,780                            | 2,396,617            | 8,000,000                              |
| Recapture 6130  |                   |                      |                     | 6,731,671            | (123,818)          |                    |                    |                      |                    |                    |                    |                    |                                    | 153,877,617          | 160,485,470                            |
| + Spending Policy transfer from General Fund 6404     |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    | 56,514,455           | 56,514,455                             |
| CSPLF Interfund Borrowing                             |                   |                      |                     | 212,500,000          | (50,000,000)       | (65,000,000)       | (97,500,000)       | 155,000,000          | 2,000,000          | (60,000,000)       | (47,000,000)       | (50,000,000)       |                                    | 0                    | 0                                      |
| <b>Total Revenues and Transfers</b>                   | <b>11,717,110</b> | <b>53,383,151</b>    | <b>(45,935,546)</b> | <b>238,289,556</b>   | <b>4,783,450</b>   | <b>2,556,075</b>   | <b>(3,536,934)</b> | <b>168,597,616</b>   | <b>4,650,880</b>   | <b>4,247,091</b>   | <b>2,349,399</b>   | <b>292,206,962</b> | <b>139,970,079</b>                 | <b>1,085,452,801</b> | <b>864,737,551</b>                     |
| Expenditures  |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    |                      |  |
| Entitlements - School Districts 4101                  |                   | (167,247,686)        |                     | (182,561,142)        |                    |                    |                    | (179,808,243)        |                    |                    |                    |                    |                                    | (529,617,071)        | (528,223,358)                          |
| ECA Entitlements 4101                                 |                   | (8,037,610)          |                     | (8,768,900)          |                    |                    |                    | (8,636,671)          |                    |                    |                    |                    |                                    | (25,443,182)         | (28,642,960)                           |
| Entitlement Adjustments 4101                          | 423,934           | 331,989              | 870,715             | (295,430)            | 8,915              | 14,959             | 42,442             | (333,457)            | 492,443            | 10,576             |                    | 561,014            |                                    | 2,128,101            | (1,500,000)                            |
| Combined Incentive Payments 4101                      |                   |                      |                     | (150,000)            |                    |                    |                    |                      |                    |                    |                    |                    |                                    | (150,000)            | (150,000)                              |
| Tax Shortfall Grants 4101                             |                   |                      |                     | (14,459,297)         |                    |                    |                    |                      |                    |                    |                    |                    |                                    | (14,459,297)         | (6,500,000)                            |
| Distance Learn Incent W.S. 21-13-330 4101             |                   | (23,000)             |                     |                      |                    |                    |                    |                      | (65,500)           | (22,500)           |                    | (48,500)           |                                    | (159,500)            | (225,000)                              |
| Recapture Loan 4101                                   |                   | (47,285,937)         |                     | (5,136,679)          |                    |                    | 19,983,469         | 6,227,854            |                    |                    |                    | 26,211,293         |                                    | (0)                  | (0)                                    |
| Vocational Education Grants 4109                      |                   |                      |                     | (35,094)             | (3,675)            | (11,500)           | (5,036)            | (5,815)              | (612)              | (10,859)           |                    |                    |                                    | (226,880)            | (296,188)                              |
| Student Performance Data System 4702                  | (6,632)           | (9,459)              | (6,232)             | (9,658)              | (290,304)          | (8,010)            | (29,513)           | (6,587)              | (7,576)            | (61,149)           | (251,982)          | (10,263)           |                                    | (697,365)            | (690,446)                              |
| COP Payments 4201                                     | (872,387)         | (859,680)            | (796,789)           | (786,370)            | (912,026)          | (807,729)          | (641,153)          | (878,619)            | (902,280)          | (781,652)          | (893,161)          | (805,061)          |                                    | (9,936,906)          | (12,567,832)                           |
| Education Reform 4601,4604,4608                       | (28,821)          | (887,944)            | (51,656)            | (1,604,062)          | (771,097)          | (3,300,358)        | (1,183,163)        | (452,352)            | (69,933)           | (1,059,286)        | (311,976)          | (149,387)          | (2,550)                            | (9,872,587)          | (11,059,101)                           |
| WDE Budget 6106,6108,6114,6121,6129,6160,6162         | (140,929)         | (170,308)            | (65,072)            | (1,043,673)          | (73,652)           | (743,721)          | (187,322)          | (44,177)             | (56,643)           | (16,540)           | (73,427)           | (98,715)           | (148)                              | (2,714,326)          | (2,521,924)                            |
| School Funding Equity Litigation (015)                | (85,414)          | (53,960)             | (50,992)            | (61,740)             | (65,446)           | (44,868)           | (71,990)           | (66,201)             | (46,171)           | (77,370)           | (46,599)           | (53,689)           | (1,694)                            | (726,134)            | (2,391,302)                            |
| Native American/Hawaiian Ed 6195                      |                   |                      |                     |                      | (600,000)          |                    |                    |                      |                    |                    |                    |                    |                                    | (1,200,000)          | (1,200,000)                            |
| National Bd Certification Payment Reimb 4503          |                   |                      |                     |                      |                    |                    |                    | (540,000)            |                    |                    |                    |                    |                                    | (540,000)            | (660,000)                              |
| SF100 College&Jobs Skills Assess Test 6130            |                   | (40)                 |                     | (32)                 |                    | (115,825)          |                    |                      | (48)               | (350)              | (1,482)            |                    |                                    | (117,777)            | (2,781)                                |
| SF159 National Guard Youth Program (007)              | (78,377)          | (193,498)            | 25,980              | (121,306)            | 111,834            | (65,446)           | (127,240)          | (2,164)              | 15,386             | (69,040)           | (137,829)          | 16,708             | (8,406)                            | (633,397)            | (1,327,251)                            |
| COP Juvenile Detention 4202                           | (21,150)          | (97,950)             | (35,250)            | (20,700)             | (26,325)           | (25,275)           | (21,750)           | (21,600)             | (29,100)           | (40,500)           | (22,950)           | (10,800)           |                                    | (373,350)            |  |
| HB139 Summer School 4112                              | (11,241)          | (1,158)              | (1,744,047)         | (26,049)             | (4,853,095)        | (22,093)           | (21,855)           | (1,553,701)          | (50,183)           | (141,079)          | (10,331)           | (10,925)           |                                    | (8,445,757)          | (9,000,000)                            |
| HB139 Instructional Facilitators 4502                 |                   | (16,048,369)         |                     |                      |                    |                    |                    |                      |                    | 48,706             |                    | 109,697            |                                    | (15,889,966)         | (16,000,000)                           |
| HB139 Education Studies 4504                          |                   |                      |                     | (4,860)              | (23,580)           | (18,730)           | (24,000)           | (6,120)              | (10,620)           | (25,150)           | (7,560)            | (8,820)            |                                    | (129,440)            |  |
| HB139 LSO Studies (500,000) & Exp (50,000) (201)      | (30,346)          | (19,662)             | (24,728)            | (26,902)             | (24,640)           | (31,660)           | (18,023)           | (17,483)             | (16,542)           |                    |                    |                    |                                    | (209,985)            |  |
| HB115 WDE Dist Ed Task Force 4506                     | (1,957)           | (3,387)              | (765)               | (122)                | (12,401)           | (11,848)           |                    |                      | (8,750)            |                    | (737)              |                    |                                    | (39,967)             | (45,104)                               |
| HB115 WDE At Risk Study 4505                          |                   |                      |                     |                      | (1,356)            | (2,685)            | (7,390)            | (3,522)              | (2,252)            | (12,715)           | (399)              | (14,060)           |                                    | (44,379)             | (200,000)                              |
| HB182 Teacher Shortage Loan Repayment (057)           | 23,563            | 110                  | 244                 | 1,887                | 254                | (1,077)            | 19                 | (111,824)            | 340                | (518)              | (107,671)          | 110                |                                    | (194,564)            | (815,354)                              |
| HB113 2008 School Adjustments 4117                    |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    | (3,104,762)          |  |
| SF70 At-Risk 4122                                     |                   |                      |                     |                      |                    |                    |                    |                      |                    | (1,061)            | (3,298)            | (4,707)            |                                    | (9,066)              |  |
| SF70 Student Enrichment 4125                          |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    | (7,900)            | (22,812)           |                                    | (30,712)             |  |
| School Cap Con (027)                                  |                   |                      |                     |                      |                    |                    | (214,232)          |                      |                    | 214,232            |                    |                    |                                    | (0)                  | (97,962,512)                           |
| + C.S. Spending Policy transfer to C.S. Reserve (004) |                   |                      |                     |                      |                    |                    |                    |                      |                    |                    |                    |                    |                                    | (71,433,150)         | (71,433,150)                           |
| * Capital Facilities Bond Debt Service (FMR) (004)    |                   |                      | (6,189,934)         | 1,729,500            | 1,167,000          |                    | 3,729,500          | 0                    | (731,667)          | (785,000)          | (485,000)          | (158,333)          |                                    | 436,066              |  |
| Interfund Borrowing Interest Expense                  |                   |                      |                     | (1,062,500)          | (839,583)          | (503,750)          |                    |                      |                    |                    |                    |                    |                                    | (4,565,834)          | (10,522,575)                           |
| <b>Total Education Expenditures</b>                   | <b>(829,757)</b>  | <b>(240,607,549)</b> | <b>(8,068,526)</b>  | <b>(213,380,629)</b> | <b>(7,432,094)</b> | <b>(6,035,449)</b> | <b>20,699,013</b>  | <b>(186,260,682)</b> | <b>(4,594,470)</b> | <b>(2,831,992)</b> | <b>(2,361,565)</b> | <b>24,748,460</b>  | <b>(71,445,948)</b>                | <b>(698,401,187)</b> | <b>(732,503,688)</b>                   |
| Ending Balance  | 223,061,266       | 35,836,868           | (18,167,204)        | 6,741,723            | 4,093,079          | 613,705            | 17,775,784         | 112,718              | 169,128            | 1,584,227          | 1,572,061          | 318,527,483        | 387,051,614                        | 387,051,614          | 248,771,951                            |
| CSPLF Loan Balance                                    | 0                 | 0                    | 0                   | 212,500,000          | 162,500,000        | 97,500,000         | 0                  | 155,000,000          | 157,000,000        | 97,000,000         | 50,000,000         | 0                  | 0                                  |                      |  |

\* FMR Diversion for Capital Facilities Bond Debt Service

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# WYO-STAR

## WYOMING STATE TREASURER'S ASSET RESERVE

In 1987 the Wyoming State Legislature authorized any county, municipality, school district or any other local government entity to participate in the WYO-STAR program (W.S. 9-1-416).

The Wyoming State Treasurer established an investment pool or common fund in which all monies are commingled for investment purposes. Each participant has an individual interest in the pool based on the ratio of that participant's cash balance as a percentage of the total cash balance of the pool. Separate accounts are maintained for each governmental entity. All investments conform to the statute covering the State Treasurer's other investments (W.S. 9-4-831).

J. P. Morgan Asset Management continues to manage the WYO-STAR portfolio. Safety of principal is always the foremost objective of the investment manager. Liquidity being the second objective, WYO-STAR continues to guarantee the return of funds on a 24-hour notice.

During FY97 WYO-STAR rules were amended to allow income to be distributed to participants on a monthly basis. Also, ACH (automated clearing house) has replaced wire transfer in returning participants' funds. Timeliness and cost savings prompted this change.

General information about the WYO-STAR program, daily rate information and forms have been made available through the Treasurer's website. Participants can access their accounts via the internet. This service is called Internet Participant Access System (IPAS). In mid-October 2007, the IPAS system was upgraded to improve the participant's overall ease of use. This service has been received by participants as very beneficial.

In late November and early December 2007, WYOSTAR participants were notified about the investment pool's exposure to subprime mortgage investments. Participants were informed that WYOSTAR has (i) zero exposure to subprime mortgages, (ii) has zero exposure to corporate bonds, (iii) does not hold asset backed commercial paper, and (iv) all securities carry a AAA rating or an implied AAA rating.

WYO-STAR investments, conformance to state statutes, and manager performance are reviewed quarterly by the consultant R.V. Kuhns & Associates, Inc. hired by the State Loan and Investment Board. This board is made up of the five elected officials, the Governor, Secretary of State, Auditor, Treasurer and Superintendent of Public Instruction.

WYO-STAR yields realized in FY08 are as follows:

|       |        |       |        |
|-------|--------|-------|--------|
| 07/07 | 4.975% | 01/08 | 5.293% |
| 08/07 | 4.949% | 02/08 | 3.680% |
| 09/07 | 4.901% | 03/08 | 3.260% |
| 10/07 | 4.772% | 04/08 | 3.081% |
| 11/07 | 4.627% | 05/08 | 2.638% |
| 12/07 | 4.390% | 06/08 | 2.681% |

The annualized yield for FY08 was 4.09%.

As of June 30, 2008, there were 148 active participants. (Some participants have multiple accounts). WYO-STAR pool balance on June 30, 2008, was \$294,209,688.86. Participants earned \$11,397,270.06 in FY08.

## WYOMING INVESTMENTS NOTES & STATUTORY REFERENCES

**Legislatively Designated Investments (LDIs)** The following are statutory references for the various LDI investments.

- (A) Farm loans under W.S. 11-34-129;
- (B) Irrigation district loans under W.S. 11-34-301;
- (C) Joint Powers loans under W.S. 16-1-109;
- (D) W.S. 9-4-701(f), student loans;
- (E) W.S. 9-4-701(e), guaranteed portion of certain Small Business Assistance Act loans and guaranteed portion of certain Farmers Home Administration loans; no new loans are to be made after December 31, 2006;
- (F) Hot Springs state park loans under W.S. 36-8-318;
- (G) Shoshone municipal water treatment project, under 1987 Wyoming Session Laws, Chapter 117, as amended;
- (H) Sheridan area water treatment project, under 1989 Wyoming Session Laws, Chapter 230, as amended;
- (I) Cheyenne water plant project under 1998 Wyoming Sessions Laws, chapter 104, as amended;
- (J) Laramie territorial park, under 1989 Wyoming Session Laws, Chapter 285, as amended;
- (K) W.S. 9-4-701(m), deferred property taxes;
- (L) W.S. 9-4-701(q), industrial development bonds;
- (M) Airport construction, development & improvement loans under W.S. 10-3-403;

**Statutory commitments:**

(N) W.S. 21-16-714, Student Loan Stand-By Commitment. This would be an investment only if it were needed to cover a default in the Student Loan Program. There has been no such incident since the legislation was established. The statutory allotment for this commitment is \$145 million of which there is an outstanding commitment agreement to cover \$90 million of outstanding student loans.

(O) Purchase of up to \$100 million WCDA bonds was authorized from the Common School Permanent Land Fund; however, the authorization period ended with only \$25 million actually used;

**Statutory loans from the general fund:**

(R) 2003 Session Laws, Chapter 171, Sec. 4 - \$279,500 for operating expenses; 2004 Session Laws, Chapter 83, Sec. 3 - \$284,600 for payment of insurance costs & professional services; 2004 Session Laws, Chapter 95, Sec. 321 - \$1,353,550 for operating expenses; 2006 Session Laws, Chapter 35, Sec. 304 - \$1,267,353 for operating expenses;

(S) 2004 Session Laws, Chapter 84, Sec. 4 - \$250,000 for operating expenses; 2005 Session Laws, Ch. 191, Sec. 191 - \$1,610,500 for operating expenses and \$5,000,000 for transmission development projects; 2006 Session Laws, Chapter 35, Sec 305 - \$1,623,540 for operating expenses and \$5,000,000 for transmission development projects.

## WYOMING INVESTMENTS

As of June 30, 2008

| <u>Program</u>                                | <u>See Notes<br/>next page</u> | <u>Statutory<br/>Allotment</u> | <u>Outstanding<br/>Investments</u> | <u>Amount<br/>Available</u> |
|---|--------------------------------|--------------------------------|------------------------------------|-----------------------------|
| <b><u>Investments for Public Purposes</u></b> |                                |                                |                                    |                             |
| Farm Loans                                    | A                              | \$275,000,000                  | \$32,256,314                       | \$242,743,686               |
| Irrigation Loans                              | B                              | 20,000,000                     | 7,367,593                          | 12,632,407                  |
| Joint Powers Loans                            | C                              | 30,000,000                     | 7,791,484                          | 22,208,516                  |
| Student Loans                                 | D                              | 25,000,000                     | 0                                  | 25,000,000                  |
| Small Business Assistance & FmHA Ag Loans     | E                              | 55,000,000                     | 1,543,498                          | 53,456,502                  |
| Hot Springs State Park                        | F                              | 2,000,000                      | 244,603                            | 1,755,397                   |
| Shoshone Municipal Pipeline Treatment Plant   | G                              | 16,500,000                     | 13,907,547                         | 0                           |
| Sheridan Area Water Treatment Project         | H                              | 6,750,000                      | 6,236,108                          | 0                           |
| Laramie Territorial Park Loan                 | J                              | 10,000,000                     | 10,000,000                         | 0                           |
| Reimbursement to Counties for Deferred Taxes  | K                              | 2,000,000                      | 22,184                             | 1,977,816                   |
| Industrial Development Bonds                  | L                              | 100,000,000                    | 0                                  | 100,000,000                 |
| Airport Loans-Aeronautics Commission          | M                              | 10,000,000                     | 3,575,432                          | 6,424,568                   |
|   |                                | <b><u>\$552,250,000</u></b>    | <b><u>\$82,944,763</u></b>         | <b><u>\$466,198,892</u></b> |

\*The list of investments shown above are investments of state funds for a specific public purpose, other than permissible investments made in compliance with W.S. 9-4-715 and 9-4-831 in accordance with state investment policy (W.S. 9-4-716), which are authorized or directed by the legislature in law. As stipulated in W.S. 9-4-715(n), investments of permanent funds for specific public purposes are limited to \$500 million. Prior to the convening of each general session of the legislature, the State Treasurer shall, after consultation with the State Loan and Investment Board, recommend to the Select Committee on Capital Financing and Investments whether any adjustment should be made in the limitation. The Treasurer closely monitors the outstanding balances these investments to ensure the statutory limitation is not exceeded. Most of these investments are from the Permanent Mineral Trust Fund.

**In addition to the specific public purpose investments listed above, the following statutory commitments have been made:**

|   |   | <u>Commitment<br/>Amount</u> | <u>Outstanding<br/>Loan Balances</u> | <u>Commitment<br/>Amount Available</u> |
|---|---|------------------------------|--------------------------------------|--|
| Student Loan Stand-By Commitment                          | N | \$90,000,000                 | \$0                                  | \$90,000,000                           |
| Wyoming Community Development Authority<br>Mortgage Bonds | O | 25,000,000                   | 917,872                              | 0                                      |
|   |   | <b><u>\$115,000,000</u></b>  | <b><u>\$917,872</u></b>              | <b><u>\$90,000,000</u></b>             |

**Also, there are statutory loans from the general fund as follows:**

|                                  |   | <u>Total Original<br/>Loan Amounts</u> | <u>Outstanding<br/>Loan Balances</u> |                   |
|----------------------------------|---|--|--------------------------------------|-------------------|
| Wyoming Gas Pipeline Authority   | P | \$2,935,403                            | \$2,650,803                          | \$0               |
| Wyoming Infrastructure Authority | Q | 7,192,605                              | 5,484,040                            | 0                 |
|                                  |   | <b><u>\$10,128,008</u></b>             | <b><u>\$8,134,843</u></b>            | <b><u>\$0</u></b> |

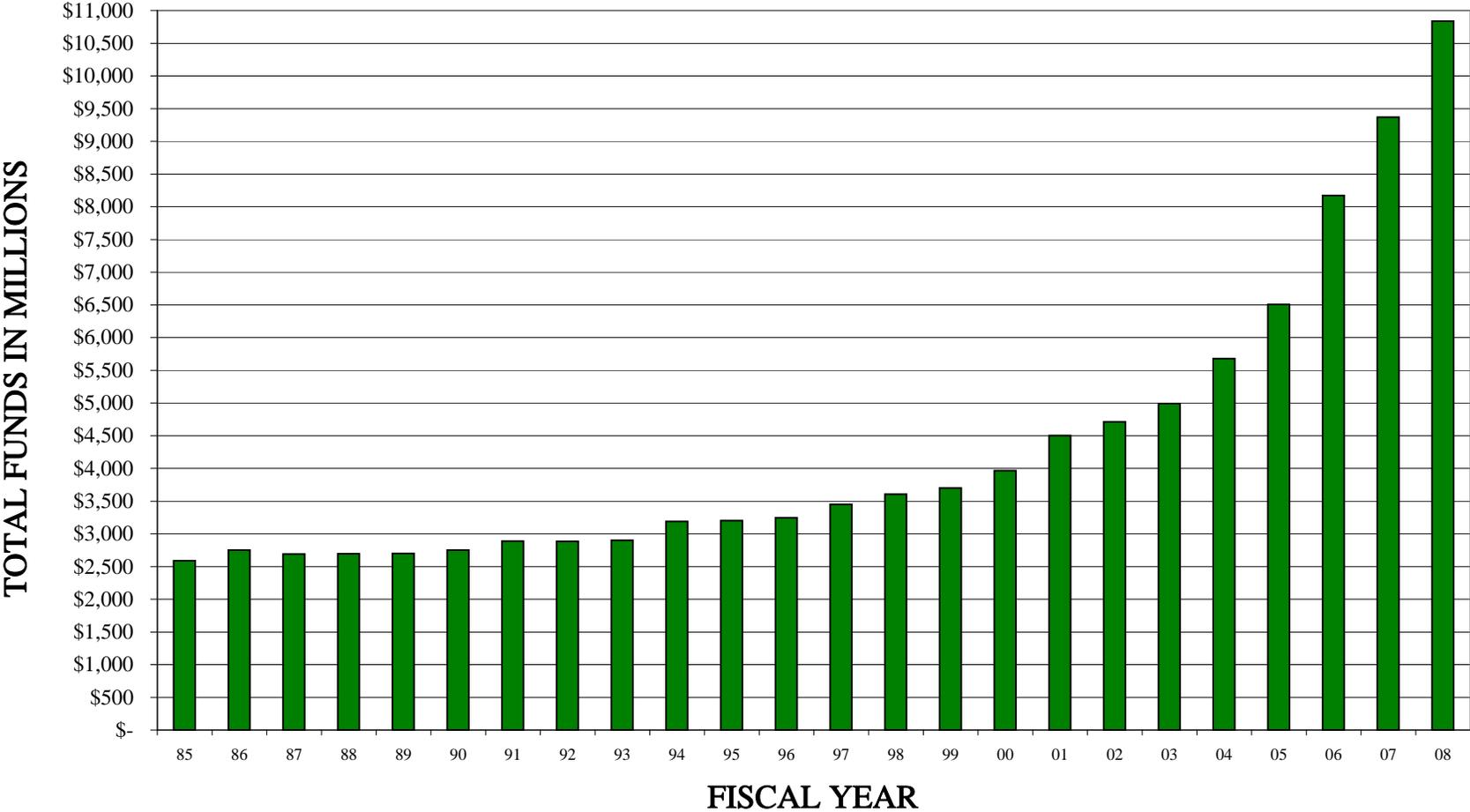
### **Other Wyoming Investments**

|   |  |                           |                             |                   |
|---|--|---------------------------|-----------------------------|-------------------|
| Basin Electric Power Bond                 |  |                           | \$34,500,000                |                   |
| Cheyenne Stage II GIC                     |  |                           | 13,460,659                  |                   |
| Drainage District Bonds                   |  |                           | 29,500                      |                   |
| Time Deposit Open Account Banking Program |  |                           | 147,000,000                 |                   |
| Wyoming Community College Bonds           |  |                           | 46,000                      |                   |
| Wyoming Real Estate - Land                |  | \$8,921,251               | 6,592,226                   |                   |
| Wyoming Tax Exempt Trust GIC              |  |                           | 4,559,591                   |                   |
|   |  | <b><u>\$8,921,251</u></b> | <b><u>\$206,187,976</u></b> | <b><u>\$0</u></b> |

**Total Wyoming Investments**

**\$298,185,454**

# INVESTABLE FUNDS



# INVESTMENT INCOME

