



# State of Utah

Comprehensive Annual  
Financial Report

For the Fiscal Year Ended June 30, 1998

**STATE OF UTAH**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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Olene Walker . . . . . Lt. Governor  
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Martin R. Stephens . . . . . Speaker of the House  
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**ACKNOWLEDGMENTS**

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**STATE OF UTAH**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
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# State of Utah

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Division of Finance

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November 23, 1998

To the Citizens, Governor,  
and Members of the Legislature  
of the State of Utah:

It is our pleasure to present the 1998 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code Annotated, 1953*, as amended. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects. We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory section contains a list of principal officials, this transmittal letter, the state organization chart, and graphic presentations giving an overview of state operations. Included in the Financial section are the general purpose financial statements and footnotes; the individual, combining, and account group financial statements; as well as the State Auditor's report. A history of selected financial and demographic information is in the Statistical section.

Federal regulations require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984 as amended and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information relating to the Single Audit, including the schedule of expenditures of federal awards, audit findings, summary of prior audit findings and recommendations, and the State Auditor's reports, is issued in a separate report and will be available at a later date.

This report includes all funds and account groups of the State of Utah. Within the funds are the various departments, agencies, and other organizational units governed by the State Legislature and/or the constitutional officers of the State of Utah. The State provides services such as education, health and human assistance, highway maintenance and construction (transportation), law enforcement, judicial system, public safety programs, natural resource management, and community and economic development programs. This report reflects the costs of these services in detail and in summary.

In addition to general government activities, we have included component unit entities which are financially accountable to the State, or for which the nature and significance of their relationship with the State are such that exclusion would cause this report to be misleading or incomplete. The criteria used to determine if a particular entity is financially accountable are: (1) a state official appoints a voting majority of the entity's governing body; and (2) the State has the ability to impose its will on that entity or the entity has the potential to provide specific financial benefits to, or impose specific financial burdens on, the State. The component units and other entities that are a part of this report include, but are not limited to, the Utah State Retirement Office, Unemployment Compensation Trust Fund, Workers' Compensation Fund, Utah Housing Finance Agency, Alcoholic Beverage Control Commission, Board of Regents Student Assistance Programs, and State Colleges and Universities.

## ECONOMIC OUTLOOK

Utah has experienced the longest sustained economic expansion in modern history with population and job growth rates twice the national average. Utah has enjoyed 10 consecutive years of 3 percent or better job growth. Unemployment rates have been continually below the national average as reflected by September 1998 rates of 4.5 percent for the U.S. and 3.3 percent for Utah. This sustained economic growth contributed to state revenues meeting expenditure levels and providing some surpluses. As the state's economy returns to more normal levels of growth, Utah faces continuing economic challenges dealing with population growth, preserving quality of life, and training for jobs of the future.

Employment growth, an important economic indicator, is slowing but continues to look strong. The average annual growth rate for 1998 is projected to be 30,200 jobs, while job growth was 39,800 for 1997. The job growth rate for 1997 was 4.2 percent and is projected to be 3.0 percent for 1998 and 2.5 percent for 1999.

The service industries continue to generate the largest number of jobs in the State. From September 1997 to September 1998, services created 9,200 new jobs, a growth rate of 3.3 percent. Business services, which include temporary and employee leasing firms, had the largest increase

of 3,200 new jobs, or 6.0 percent. The other major contributors to rapid expansion were high-tech computer services, medical/health services, engineering/management services, and personal/amusement services. Construction growth continues to be strong with a 4.4 percent increase, or 3,000 jobs. Although residential construction is slowing, commercial, government, and highway construction are very active. Retail and wholesale trade added 4,400 total new jobs, a 1.8 percent increase. The transportation, communication, and utilities industries had growth of 1,700 jobs, or a 3.0 percent growth rate. Finance, insurance, and real estate had growth of 2.6 percent, or 1,400 new jobs. Manufacturing continues to grow, creating 1,300 new jobs, or a 1.0 percent growth rate. Government grew at 4.3 percent, creating 7,400 new jobs; 5,000 of the jobs were in education. Mining showed a decrease of 4.7 percent, or 400 jobs.

The population forecast for 1998 is 2,087,000, which is 1.8 percent higher than the 1997 population of 2,049,000. Since 1990, Utah's rate of population growth has averaged 2.5 percent, so the forecast for 1998 signals a slowdown in population growth. Net in-migration was approximately 10,500 in 1997, the seventh consecutive year of strong net in-migration. With the slowing economic growth, net in-migration is expected to be approximately 3,400 in 1998.

The State's population is concentrated along the Wasatch Front, with Salt Lake, Weber, Davis, and Utah counties containing 76 percent of the State's population. Counties outside the metropolitan areas continue to experience population and economic growth. In 1997 almost half (48.7 percent) of the State's net in-migration was attributed to non-metropolitan counties.

Utah's demographics are unique. On the average, Utah residents are the youngest in the nation. The most recent data available, which is for 1996, shows Utah ranked first in the percent of population under five years of age, and first in the percent of population aged five to seventeen. Utah's young, energetic, and educated work force has attracted national recognition, making Utah an attractive site for business expansion and relocation.

Utah is located in the center of the Rocky Mountain region, with excellent access to major national and international markets. Transportation infrastructure in the form of interstate highways, railroad lines, and an international airport is in place and is expanding to provide efficient transportation for business and tourism.

Tourism represents an important activity in the State's economy. The geography and climate of Utah provide excellent vacation and recreational opportunities for its citizens and visitors. The State has some of the best snow skiing conditions in the world. Within the State there are five national parks and seven national monuments, two national recreation areas, one national historic site, seven national forests, and 45 state parks. A visitor can go from high mountain vistas to spectacular desert sandstone formations in a few hours. The beauty of the land, combined with the exceptional business climate, helps to draw over 17 million trips by visitors annually to the State. Tourism contributes around \$4 billion to the State's economy each year.

## **MAJOR INITIATIVES**

Utah is facing a significant era of change as we move into the twenty-first century. The State's population, which reached one million in 1966, has taken only 30 years to reach 2 million. The population is projected to grow to 3 million in only 16 years, and the State could reach 5 million by the year 2050. This growth has had a significant impact on the State's resources and life styles. Growth is inevitable, and it will bring challenges that must be faced and managed. The Governor and Legislature are working with local governments and private businesses to plan for the future and address current needs of the State. Strains created by growth include higher housing prices, labor shortages, low unemployment rates, and upward pressure on wages. In addition, growth strains such as traffic congestion, air quality concerns, and water development are of great interest. Demands on government services in education, corrections, and health and human services continue to grow with population increases. The State also faces the challenge of sustaining its quality of life and maintaining open spaces for agriculture, people, and wildlife.

The State's transportation needs have taken the center stage this past year with the continuation of reconstruction of Interstate 15 (I-15) through Salt Lake County. The rebuilding of I-15 is currently the largest public works project in North America. The project is scheduled for completion by 2001, with a budget of \$1.6 billion. In addition, major traffic arteries in Salt Lake County were improved to handle traffic during construction and to improve traffic flows. The Legacy Highway from Box Elder County to Juab County is in the planning stages. These major transportation developments, along with the I-15 reconstruction, have an anticipated cost of \$2.6 billion over the next 9 years. The Centennial Highway Fund was created to accumulate resources and to fund these projects. Funding will come from increased motor fuel taxes and vehicle registration fees that became effective July 1, 1997. In addition, in fiscal years 1998 and 1999 the Legislature appropriated a total of \$183 million from the General Fund to the Centennial Highway Fund. To meet cash flow needs for construction, from July 1997 to July 1998, the State issued \$840 million in General Obligation Debt. These Centennial Highway Fund and construction projects are in addition to ongoing construction in the Transportation Fund.

Education continues to be a significant issue facing the State. Utah ranks first in the nation in the number of school age children as a percentage of the population, which results in the State spending over 48.9 percent of its tax revenues for education. Student enrollment in the public education system (grades K through 12) and higher education continues to increase. The following are some of the initiatives being undertaken to address education concerns: In 1998 the Legislature provided funding for conversion to the semester system by all state institutions of higher education. This will improve academic programs and transferability between institutions. They also enhanced funding for libraries, technology initiatives, new student enrollment growth, operation and maintenance of new facilities, and compensation for higher education. Public education received ongoing funding that had been funded with one-time money in the past, for programs such as reducing class size, improving reading skills, and implementing new technology. The Technology 2000 initiatives include development and delivery of courses on inter-active video, multimedia, e-mail, television, and the Internet.

The State continues to address an expanding prison population through constructing regional and privatized facilities, increasing local government contracts, and expanding the state prison and home confinement programs. Youth Corrections has been funded to implement various programs including community alternatives to detention, presumptive sentencing guidelines, and establishing contempt camps. The Legislature also authorized the construction of a 288 bed addition to an existing correctional facility, approval for additional facilities for the Division of Youth Corrections, and \$8 million for the construction of two 32 bed multi-use facilities.

Health and human services issues are being addressed with welfare reforms that focus on employment, short-term intervention, and job training. The State created a new Department of Workforce Services that consolidates family support, job training, and job placement. The department will reduce red tape with program simplification and one-stop service delivery locations. The Legislature provided enhanced funding for children at risk of abuse and neglect, people with disabilities, abuse treatment programs, Aging and Adult Services, and for mental health treatment. The 1998 Legislature passed the Children's Health Insurance Program which provides access to health insurance for children in working poor families.

Environmental issues such as air quality, water quality, and hazardous waste continue to grow with the population. Environmental cleanup continues for underground storage tanks and hazardous waste sites. Programs to protect and provide drinking water and waste water treatment are continually being developed throughout the State. The State continues to study and develop programs to reduce emission from vehicles and industry. Various funding mechanisms are used to pay for these programs including general tax revenues, restricted taxes, fees, and loan programs.

The State continues to enhance its economic development programs. The Department of Community and Economic Development received \$2.5 million in 1998 and \$1.5 million in 1999 to enhance low income housing opportunities. The Industrial Assistance Fund, which uses incentives to attract new businesses to Utah or to expand existing businesses in rural areas, received \$2.6 million for 1998 and 1999. The State continues to focus efforts on revitalizing rural economics throughout the State.

Due to a semi-arid climate, maintaining an adequate water supply is always a great concern of the State. The State is continually involved in water development and conservation projects, ranging from small local water projects to major reservoir storage projects. Loans and grants to improve our water system infrastructure continue to be provided through state agencies.

The State has taken action to ensure the electronic data processing systems, applications, and equipment are Year 2000 (Y2K) compliant. The Legislature has appropriated \$6 million of special funding to state agencies for conversion of systems for Y2K compliance. The State is in the remediation and testing stage. Most of the mission critical systems are scheduled to be Y2K compliant by March of 1999, with the remainder planned for completion by July 1999. Colleges and Universities are in the assessment and remediation phase of Y2K compliance. The State is also actively working with vendors, suppliers, and other business partners to be certain that their systems and processes will not adversely affect the State of Utah.

Salt Lake City will be the host city for the 2002 International Winter Olympics. The State has been preparing for this day since 1989 when the voters approved use of a portion of the sales tax to build and operate winter sports facilities to pursue the bid. In April 1999, the State will sell the winter sports facilities to the Salt Lake Organizing Committee. The proceeds from the sale will be used to repay the State and local governments for the sales taxes used. The Salt Lake Organizing Committee has begun construction and upgrade of the winter sports facilities to make them suitable to host the Olympic Winter Games of 2002.

Many issues related to hosting the 2002 Winter Olympic Games will affect the State and will require continued planning and coordination with the Salt Lake Organizing Committee and state and local governments. The State continues to work with the Committee to evaluate the economic impact on state and local government services, as well as to review the economic benefits.

## FINANCIAL INFORMATION

### **Internal Control:**

The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

### **Budgetary Control:**

The State Constitution requires that budgeted expenditures should not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget to the Legislature. The Legislature authorizes expenditures in the annual state *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. The budget is generally prepared on a basis consistent with generally accepted accounting principles (GAAP), except accounting for certain intrafund activity.

In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions. Adjustments to the budget may be made throughout the year for changes in departmental revenues or fund revenues so that departments and funds will not end the fiscal year in a deficit position.

The State also has an appropriation limitation statute which limits the growth in state appropriations. The law provides three basic limitations. First, as population, personal income, and inflation increase, appropriations are allowed to increase only at the same relative rate. Second, it limits outstanding state general obligation debt to 20 percent of the appropriations limit. Third, it establishes a ceiling for the state-mandated property tax rate, which funds a portion of public education at the local level. The property tax rate ceiling is the level established July 1, 1989.

In 1997 and 1998 the Legislature exempted appropriations for construction of capital developments, appropriations to the Centennial Highway Fund, and transfers to the Budgetary Reserve Account (Rainy Day Reserve Account) from the appropriations limit. The Legislature also exempted highway bonding from the statutory debt limit.

The above statutory limitation can be exceeded only if a fiscal emergency is declared and approved by more than two-thirds of both houses of the Legislature, or if approved by a vote of the people. However, the appropriations limit statute may be amended by a majority in both houses of the Legislature.

The State was \$114 million below the appropriations limitation for the fiscal year ended June 30, 1998. The State is currently below the fiscal year 1999 appropriations limitation by \$238 million. Also, the State is currently \$122 million below the statutory debt limit and \$702 million below the debt limit established in the Constitution.

**General Governmental Functions:**

General governmental functions are represented by the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the General Long-Term Obligation Account Group, and the General Fixed Assets Account Group.

Revenues for general government functions totaled \$5.3 billion in 1998, an increase of 9.9 percent over 1997. This does not include bond proceeds, beginning fund balances, and other financing sources that are used to pay governmental fund expenditures. The amounts of revenue from various sources and the changes from last year are shown as follows:

**General Government Revenues**  
*(Expressed in Thousands)*

Revenue Source	Amount	Percent of Total	Increase / (Decrease) From 1997	
			Amount	Percent
Sales Tax . . . . .	\$ 1,287,849	24.4%	\$ 27,888	2.2%
Individual Income Tax . . . . .	1,377,494	26.1	140,162	11.3
Corporate Income Tax . . . . .	196,275	3.7	4,284	2.2
Motor and Special Fuel Tax . . . . .	290,086	5.5	75,328	35.1
Licenses, Permits, and Fees . . . . .	83,994	1.6	19,508	30.3
Investment Income . . . . .	61,782	1.2	22,378	56.8
Federal Revenues . . . . .	1,382,748	26.2	67,469	5.1
Other Taxes and Revenue . . . . .	592,676	11.3	117,987	24.9
Total . . . . .	<u>\$ 5,272,904</u>	<u>100.0%</u>	<u>\$ 475,004</u>	9.9%

Sales Tax is the largest unrestricted source of state tax revenues. The increase of \$28 million, or 2.2 percent over the previous year, was the result of strong consumer spending caused by population, low unemployment rates, and commercial construction. This economic growth was evident in statistics through the end of 1997. During 1997 retail sales increased 3.2 percent and nonresidential permit values increased 44 percent. Statistics for 1998 continue to reflect strong growth but at a slower pace.

Individual Income Tax increased \$140 million, or 11.3 percent. The growth was mainly attributed to the increased growth in jobs of approximately 4.2 percent and personal income growth rate of about 7.4 percent in 1997.

The Corporate Income Tax increase of \$4 million, or 2.2 percent, was attributable to economic growth.

The Motor and Special Fuel Tax increase of \$75 million, or 35.1 percent, was caused by a five cents a gallon increase in diesel and gasoline tax and an increase in vehicle miles due to population growth.

The Licenses, Permits, and Fees increase of \$20 million, or 30.3 percent, was mainly attributable to an increase in the rates for vehicle registration and trucking fees.

The Investment Income increase of \$22 million, or 56.8 percent, was mainly attributable to an increase in the average cash balances due from bond proceeds and an increase in the average yield on investments in the State Treasurer’s pools. The average yield in the State Treasurer’s Pools increased to 5.74 percent in fiscal year 1998 from 5.63 percent in fiscal year 1997.

The Federal Revenues net increase of \$67 million, or 5.1 percent, was mostly attributable to increased federal revenue in the following areas: Medicaid, \$34 million; Health Care Financing, \$5 million; Office of Education, \$19 million; Human Services, \$5 million; Criminal and Juvenile Justice, \$2 million; and other miscellaneous increases. Additionally, this increase includes the federal receivable of \$55 million for compensated absences and postemployment benefits. These increases were offset by a net \$3 million decrease in federal revenue for Transportation, a \$9 million decrease in Workforce Services, and a \$32 million decrease in federal revenues for Environmental Quality due to the completion of superfund clean-up sites funded with federal revenue.

Other taxes and revenues increased by \$118 million, or 24.9 percent. The largest revenue increases occurred in the following areas: intergovernmental revenues, \$34 million; \$15 million in the collection of inheritance taxes; \$12 million in cigarette taxes due to a 25 cent per pack increase in the cigarette tax; \$38 million restricted accrued taxes; departmental collections, \$6 million; and other miscellaneous increases. These increases were offset by an \$3 million decrease in aeronautic revenues due to decreased federal funds for airport construction

Expenditures and other uses for total general governmental functions were \$5.6 billion, an increase of 11.8 percent over 1997. This does not include transfers made to other funds except General Fund appropriations transferred to the colleges and universities, which are included in the following table as higher education expenditures. State government expenditures and other uses by function and the changes from last year are as follows:

**General Government Expenditures**  
(Expressed in Thousands)

Function	Amount	Percent of Total	Increase / (Decrease) From 1997	
			Amount	Percent
General Government	\$ 251,671	4.5%	\$ (21,645)	(7.9)%
Education:				
Public	1,676,675	29.7	21,748	1.3
Higher	475,817	8.4	11,615	2.5
Human Services, Workforce Services, Health, Environmental Quality, and Corrections	1,574,857	27.9	94,241	6.4
Transportation and Public Safety	1,126,142	20.0	453,512	67.4
Natural Resources	88,529	1.6	(3,127)	(3.4)
Community and Economic Development	72,847	1.3	(11,537)	(13.7)
Business, Labor, and Agriculture	42,423	0.7	3,316	8.5
Debt Service	131,075	2.3	30,424	30.2
Capital Projects	200,912	3.6	18,783	10.3
<b>Total</b>	<b>\$ 5,640,948</b>	<b>100.0%</b>	<b>\$ 597,330</b>	<b>11.8%</b>

The decrease in General Government expenditures of \$22 million, or 7.9 percent, is mainly due to a \$47 million shift of employment security services now provided by the Department of Workforce Services. Additionally, leave/postemployment benefits expenditures decreased by \$10 million. These decreases were offset by a \$11 million increase in Tax Commission Administrative expenditures; a \$15 million increase in Courts, elected officials, and the Legislature; and other miscellaneous increases in government operations. The \$11 million increase in Tax Commission Administrative expenditures was due in part to the \$8.5 million in bond proceeds used in the first phase of a tax systems modernization.

Expenditures for Public and Higher Education are the largest use of state revenues. The increases of \$22 million, or 1.3 percent, in Public Education and \$12 million, or 2.5 percent, in Higher Education reflect additional funding for the continued growth in school age population; funding to reduce class size and increase teachers' compensation; funding to offset increased costs for student transportation; and funding for technical initiatives. Additionally, the Legislature appropriated \$2.5 million to support higher education's plan to convert from a quarter to semester calendar at all institutions.

Human Services, Workforce Services, Corrections, Health, and Environmental Quality expenditures increased by \$94 million, or 6.4 percent. The largest expenditure increases occurred in the following areas: medical assistance, \$39 million; health care programs, \$7 million; disability programs, \$9 million; youth corrections programs, \$9 million; and family service programs, \$7 million. Approximately \$63 million in increases are due to a shift of child care services, job programs and employment services provided by Workforce Services in 1998. These increases were offset by a \$32 million decrease in expenditures for Environmental Quality, mainly due to the completion of clean-up sites funded with federal revenue. Food stamps and food commodities distributions decreased by \$6 million. The reduction in food stamps was caused by a \$6 million conversion of food benefits to cash payment benefits and a \$12 million reduction in case loads. Federal revenues provided the majority of the funding for increases in the Departments of Human Services, Workforce Services, and Health. Expenditures in the Department of Corrections increased by \$7 million due to expanding prison facilities and population.

Transportation and Public Safety expenditures increased by \$454 million, or 67.4 percent. This was mainly due to a \$474 million increase in highway construction expenditures associated with the Centennial Highway Fund, offset by a \$24 million decrease in highway construction expenditures in the Transportation Fund, and other miscellaneous increases. The Centennial Highway Fund was created by the Legislature in 1996 to account for activity associated with the I-15 reconstruction and other Centennial Highway projects. The majority of the cash flow came from bond proceeds.

Expenditures for Capital Projects went from \$182 million in fiscal year 1997 to \$201 million in fiscal year 1998, an increase of \$19 million or 10.3 percent. This increase was due in part to an increase in renovation and construction of various higher education facilities.

Each fund of the State maintains an equity position which is either restricted by state law, restricted by contract, or is unreserved and available for future appropriation. The equity position of the State's General Fund and Special Revenue Funds are noted below:

- A. General Fund — Departments lapsed unexpended appropriations of \$2 million to the unreserved fund balance. The General Fund ended the year with an unreserved fund balance of \$9 million and a reserved and designated fund balance of \$510 million, including \$88 million designated for the Rainy Day Reserve Account.
- B. Special Revenue Funds — These funds are the Uniform School Fund, the Transportation Fund, the Centennial Highway Fund, the Sports Authority Fund, and the Consumer Education Fund.

The Uniform School Fund ended the year with a \$34 million unreserved fund balance and a reserved and designated fund balance of \$196 million.

The Department of Transportation lapsed \$7 million of unexpended appropriations to the unreserved fund balance of the Transportation Fund. The Transportation Fund ended the year with an unreserved fund balance of \$42 thousand and a reserved and designated fund balance of \$18 million.

The Centennial Highway Fund had an unexpended fund balance of \$459 million that is restricted for use on Centennial Highway projects.

The Sports Authority Fund was created in 1989 to account for sales tax revenue restricted for Winter Olympic facilities. The Fund ended the year with an unreserved fund balance of \$937 thousand.

The Consumer Education Fund had an unreserved fund balance of \$309 thousand.

#### **Funding of Compensated Absences and Postemployment Benefits:**

In fiscal year 1994 the State became the first state to recognize and fund its liabilities for compensated absences and postemployment benefits. The funding for the liability came from the acceleration of tax revenue recognition as a result of implementing new accounting standards. Compensated absences and postemployment benefits are also funded with an accrual of the federal receivable for the federal share of the liability. Ongoing funding is charged to agency budgets as benefits are earned. As of June 30, 1998, the liability for compensated absences and postemployment benefits was \$157 million in the General Fund, \$17 million in the Uniform School Fund, and \$29 million in the Transportation Fund.

#### **Enterprise Funds:**

The Enterprise Funds are comprised of governmental and quasi-governmental agencies providing goods and services to the public on a charge-for-services basis. The Student Assistance Programs are a major part of the Enterprise Funds. These programs issue their own debt, and their debt repayment is funded through loan service fees, interest earnings, and federal aid.

The Alcoholic Beverage Control Fund (Enterprise Fund) controls the sale of alcoholic beverages in the State, and the profits received from these sales are transferred to the General Fund. Net income from operations totaled \$26 million in fiscal year 1998, an increase of \$2 million, or 8.2 percent, from 1997. In addition, Sales Tax and School Lunch Tax collected on liquor sales were \$6 million and \$12 million, an increase of \$471 thousand and \$813 thousand from 1997, respectively.

#### **Internal Service Funds:**

The Internal Service Funds provide services to state and local governments and are financed through user charges. Most funds attempt to operate on a break-even basis. Rates are adjusted annually for over or under recovery of cost. The State's self-insurance program, Risk Management, also operates as an Internal Service Fund. The Fund has sufficient current operating reserves and is funded for actuarial losses.

#### **Pension Trust Fund:**

Operations of the State Retirement Systems have continued with favorable results. The Fund is actuarially sound, and the current unfunded actuarially accrued liabilities of \$772.059 million are being amortized and funded over a 30-year period which began January 1, 1990.

#### **Debt Administration:**

The State continues to enjoy a triple "A" rating on general obligation bonds and a double "A" rating on revenue bonds from Moody's Investors Service Inc., Standard & Poor's Corporation, and Fitch Investor's Service. The State also received top ratings on commercial paper from

Moody's Investors Service Inc., Standard & Poor's Corporation, and Fitch Investor's Service. These are the best ratings available and save the State millions of dollars in interest on general obligation and revenue-type bonds, and commercial paper. During the fiscal year, the State issued \$65 million in general obligation bonds and \$4 million in lease revenue bonds for construction and renovation of various capital facilities. The State also issued \$340 million in general obligation bonds and \$260 million in commercial paper notes to be used in highway construction.

Shortly after fiscal yearend, the State issued general obligation bonds totaling \$55 million and lease revenue bonds totaling \$154 million for building construction and purchases. The State also issued \$210 million in general obligation bonds to convert \$210 million of the 1997 A&B commercial paper notes to long-term bonds. In addition, the State issued \$240 million in commercial paper notes, to be used for highway construction. The remaining commercial paper is expected to be converted to long-term bonds before May 2, 2003. The State is authorized to issue an additional \$23 million in general obligation bonds for construction and renovation of various capital facilities. The bonds are not likely to be issued before July 1999.

#### **Constitutional Debt Limitation:**

Article XIV, Section 1, of the State's Constitution limits the State to a total general obligation debt not to exceed, in the aggregate at any one time, an amount equal to 1.5 percent of the value of the taxable property of the State, as shown by the last assessment for state purposes. Using the latest December 1997 value, the debt limit of the State is \$1.886 billion. Revenue bonds and certificates of participation issued by the State are legally excluded from the debt limitations.

As of June 30, 1998, the State's total general obligation bonded debt outstanding was \$1.202 billion, leaving available to the State \$684 million of additional general obligation borrowing capacity. As of October 31, 1998, the outstanding debt was \$1.184 billion, with a remaining constitutional limit of \$702 million.

#### **Statutory Limitations on State Indebtedness:**

A statutory debt limit is established in the *Utah Code Annotated, 1953*, as amended, Section 63-38c. It sets the maximum general obligation bonding authority at 20 percent of the appropriation limitation discussed earlier. Under this limitation, the State may have total outstanding general obligation debt of approximately \$706 million. As of October 31, 1998, excluding \$600 million in highway bonds which are exempt from the statutory bond limit, the remaining borrowing capacity of the State under this limitation is \$122 million.

#### **Cash Management:**

Cash is controlled by the State Treasurer or by other administrative bodies as specified by law. Investments are made in compliance with the State Money Management Act (*Utah Code Annotated, 1953*, as amended, Section 51-7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

Deposits of \$4 million for the Primary Government and \$3 million for component units are insured by the Federal Deposit Insurance Corporation or by collateral held by the State's agent in the name of the State. The remaining deposits are uninsured and uncollateralized. The State does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishes limits for deposits of public money for each institution. The State Treasurer's pool yields were between 5.69 percent and 5.78 percent for fiscal year 1998. Variations in yield were usually due to the long-or short-term nature of the pools.

#### **Risk Management:**

The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts.

The property self-insurance limits for the fiscal year 1998 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

## **INDEPENDENT AUDIT**

In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other audit firms. Their audit was conducted in accordance with generally accepted auditing standards and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the general purpose financial statements has been included in the financial section of this report. In addition, the State coordinates through the State Auditor the "Single Audit" of all federal funds. The Single Audit is issued as a separate report at a later date.

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997. This is the thirteenth year in a row the State has received this award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for only one year. We believe that this report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

## **CONCLUSION**

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

Kim S. Thorne, CPA  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Utah

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1997

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



*Douglas R. Ellaworth*  
President

*Jeffrey L. Essler*  
Executive Director

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# STATE OF UTAH

## FINANCIAL HIGHLIGHTS

Fiscal Year Ended June 30, 1998

(Expressed in Thousands)

### Fund Equity Summary General and Special Revenue Funds June 30, 1998

	General Fund	Special Revenue Funds	Total
<b>Fund Equity Reserved</b>			
Nonlapsing Appropriations:			
Community and Economic Development . . . . .	\$ 8,429	\$ —	\$ 8,429
Natural Resources – Parks and Recreation . . . . .	7,255	—	7,255
Natural Resources – Except Parks . . . . .	5,576	—	5,576
Environmental Quality . . . . .	5,398	—	5,398
Department of Human Services . . . . .	4,953	—	4,953
Administrative Services . . . . .	3,017	—	3,017
Business, Labor, and Agriculture . . . . .	5,951	—	5,951
Department of Corrections . . . . .	2,689	—	2,689
Tax Commission . . . . .	4,652	—	4,652
Department of Health . . . . .	2,490	—	2,490
USF Minimum School Program . . . . .	—	30,301	30,301
USF Office of Education . . . . .	—	6,053	6,053
DOT Sidewalk Construction . . . . .	—	1,166	1,166
Miscellaneous Other . . . . .	6,948	1,010	7,958
Total Nonlapsing . . . . .	<u>57,358</u>	<u>38,530</u>	<u>95,888</u>
Restricted Fund Balances:			
Water Pollution Loans . . . . .	146,482	—	146,482
Safe Drinking Water Loans . . . . .	40,905	—	40,905
Housing Development Loans . . . . .	27,414	—	27,414
Environmental Quality . . . . .	2,666	—	2,666
Oil Overcharge Account . . . . .	11,376	—	11,376
Industrial Assistance . . . . .	3,717	—	3,717
Medicaid Restricted . . . . .	19,772	—	19,772
DWS Special Administration . . . . .	4,583	—	4,583
Public Safety Accounts . . . . .	3,494	—	3,494
Wildlife Resources Restricted . . . . .	9,497	—	9,497
Nursing Facilities . . . . .	2,957	—	2,957
Natural Resources – Except Wildlife . . . . .	4,496	—	4,496
Corridor Preservation . . . . .	—	3,191	3,191
USF School Building Loans . . . . .	—	10,099	10,099
USF Applied Technology Centers . . . . .	—	2,277	2,277
Centennial Highway Fund . . . . .	—	458,853	458,853
Aeronautics . . . . .	—	2,993	2,993
Reserve for Advances to Internal Service Funds . . . . .	23,437	203	23,640
Miscellaneous Other . . . . .	13,200	3,091	16,291
Total Restricted Funds . . . . .	<u>313,996</u>	<u>480,707</u>	<u>794,703</u>
Total Fund Equity Reserved . . . . .	371,354	519,237	890,591
<b>Unreserved Designated</b>			
Rainy Day Reserve Account . . . . .	88,465	—	88,465
Net Accrued Taxes . . . . .	30,370	125,718	156,088
For Fiscal Year 1999 Appropriations . . . . .	20,103	27,911	48,014
<b>Unreserved Undesignated</b> . . . . .	<u>9,408</u>	<u>35,787</u>	<u>45,195</u>
<b>Total Fund Equity</b> . . . . .	<u>\$ 519,700</u>	<u>\$ 708,653</u>	<u>\$1,228,353</u>

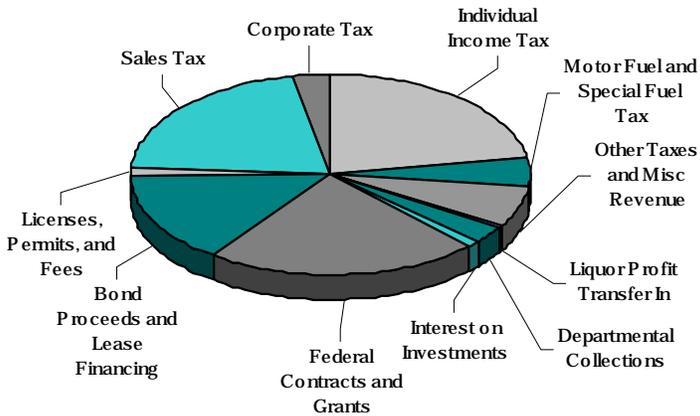
# STATE OF UTAH

## FINANCIAL HIGHLIGHTS

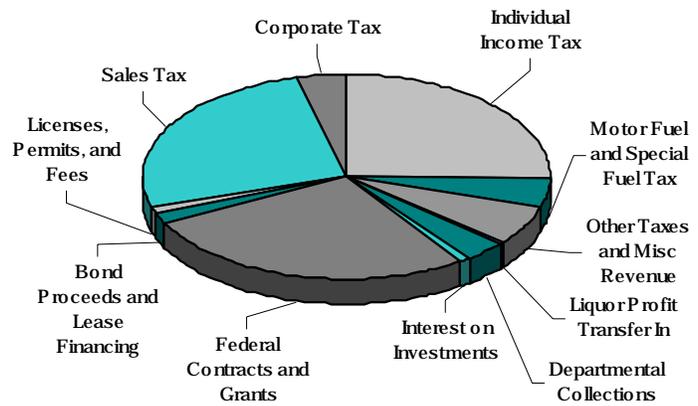
### REVENUES AND OTHER SOURCES

#### GOVERNMENTAL FUND TYPES ONLY

(Expressed in Thousands)



June 30, 1998



June 30, 1997

#### Fiscal Year Ended June 30

Revenues and Other Sources	1998		1997	
	Amount	Percent of Total	Amount	Percent of Total
Sales Tax	\$ 1,287,849	20.7%	\$ 1,259,961	25.7%
Federal Contracts and Grants	1,382,748	22.2	1,315,279	26.9
Individual Income Tax	1,377,494	22.2	1,237,332	25.3
Other Taxes and Miscellaneous Revenue	418,448	6.7	310,926	6.4
Motor and Special Fuel Taxes	290,086	4.7	214,758	4.4
Departmental Collections	174,228	2.8	163,763	3.3
Corporate Tax	196,275	3.2	191,991	3.9
Investment Income	61,782	1.0	39,404	0.8
Licenses, Permits, and Fees	83,994	1.3	64,486	1.3
<b>Total Revenues</b>	<b>5,272,904</b>	<b>84.8</b>	<b>4,797,900</b>	<b>98.0</b>
Other Sources (A):				
Liquor Profit Transfer In	26,297	0.4	24,312	0.5
Bond Proceeds and Lease Financing	919,033	14.8	74,422	1.5
<b>Total Revenues and Other Sources</b>	<b>\$ 6,218,234</b>	<b>100.0%</b>	<b>\$ 4,896,634</b>	<b>100.0%</b>

(A) Note: This does not include various Trust Fund and Internal Service Fund revenues which are reflected in the General Fund and Special Revenue Funds as transfers in.

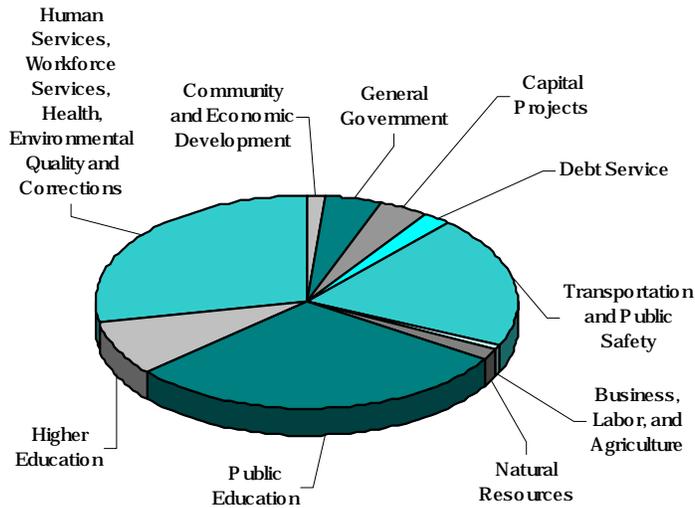
# STATE OF UTAH

## FINANCIAL HIGHLIGHTS

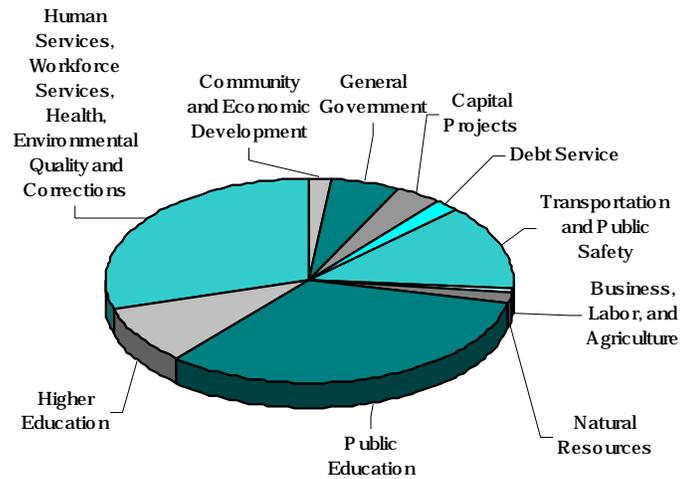
### EXPENDITURES BY FUNCTION

#### GOVERNMENTAL FUND TYPES ONLY

(Expressed in Thousands)



June 30, 1998



June 30, 1997

Expenditures by Function	Fiscal Year Ended June 30		Fiscal Year Ended June 30	
	1998	1997	1998	1997
	Amount	Percent of Total	Amount	Percent of Total
Education:				
Public .....	\$ 1,676,675	29.7%	\$ 1,654,927	32.8%
Higher .....	475,817	8.4	464,202	9.2
Human Services, Workforce Services, Health, Environmental Quality, and Corrections .....	1,574,857	27.9	1,480,616	29.4
Transportation and Public Safety .....	1,126,142	20.0	672,630	13.3
General Government .....	251,671	4.5	273,316	5.4
Debt Service .....	131,075	2.3	100,651	2.0
Capital Projects .....	200,912	3.6	182,129	3.6
Natural Resources .....	88,529	1.6	91,656	1.8
Community and Economic Development .....	72,847	1.3	84,384	1.7
Business, Labor, and Agriculture .....	42,423	0.7	39,107	0.8
Total Expenditures (A) .....	<u>\$ 5,640,948</u>	<u>100.0%</u>	<u>\$ 5,043,618</u>	<u>100.0%</u>

(A) Note: This does not include transfers made to other funds, except General Fund appropriations transferred to the colleges and universities which are included as higher education expenditures.

# STATE OF UTAH

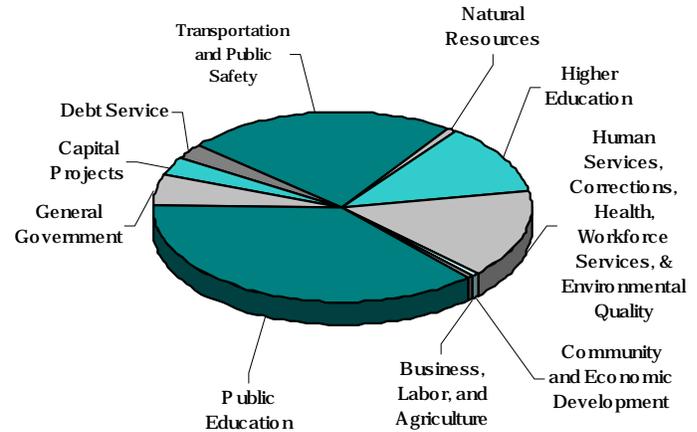
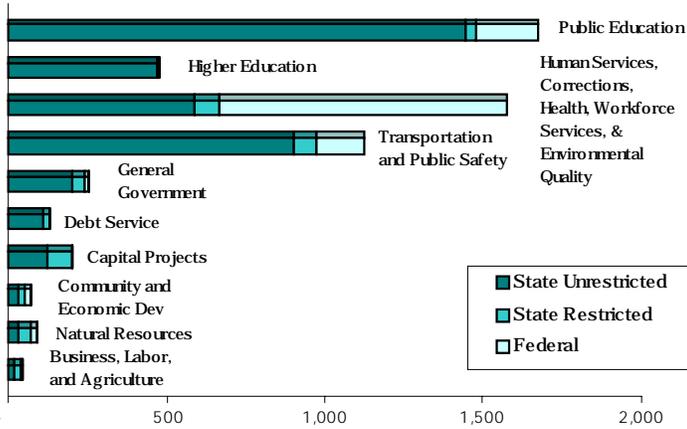
## FINANCIAL HIGHLIGHTS

### EXPENDITURES BY SOURCE

#### GOVERNMENTAL FUND TYPES ONLY

For the Fiscal Year Ended June 30, 1998

(Expressed in Thousands)



Expenditures of Unrestricted State Tax Sources

	Federal Sources	Percent of Total	Unrestricted State Tax Sources	Percent of Total	Restricted Fees and Other Sources	Percent of Total	Total Expenditures All Sources	Percent of Total
Education:								
Public .....	\$ 201,325	15.3%	\$ 1,446,004	36.9%	\$ 29,346	7.2%	\$ 1,676,675	29.7%
Higher .....	819	0.1	469,934	12.0	5,064	1.2	475,817	8.4
Human Services, Workforce Services, Health, Environmental Quality, and Corrections .....	907,952	69.2	584,958	14.9	81,947	20.1	1,574,857	27.9
Transportation and Public Safety .....	153,993	11.7	899,434	22.9	72,715	17.8	1,126,142	19.9
General Government .....	10,664	0.8	201,684	5.1	39,323	9.7	251,671	4.5
Debt Service .....	—	0.0	112,794	2.9	18,281	4.5	131,075	2.3
Capital Projects .....	—	0.0	124,492	3.2	76,420	18.8	200,912	3.6
Community and Economic Development .....	18,020	1.4	33,327	0.9	21,500	5.3	72,847	1.3
Natural Resources .....	15,928	1.2	31,994	0.8	40,607	10.0	88,529	1.6
Business, Labor, and Agriculture .....	3,874	0.3	16,467	0.4	22,082	5.4	42,423	0.8
<b>Total .....</b>	<b>1,312,575</b>	<b>100.0%</b>	<b>\$ 3,921,088</b>	<b>100.0%</b>	<b>\$ 407,285</b>	<b>100.0%</b>	<b>\$ 5,640,948</b>	<b>100.0%</b>
Other Federal Revenue for Loans and Nonexpended Programs .....	70,173							
<b>Total Federal Revenue .....</b>	<b>\$ 1,382,748</b>							

# STATE OF UTAH

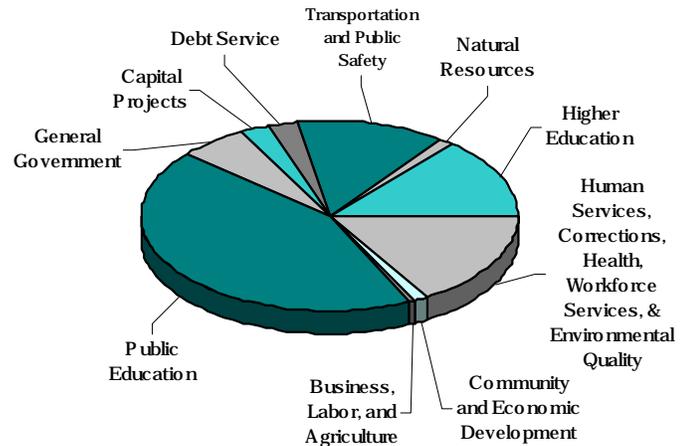
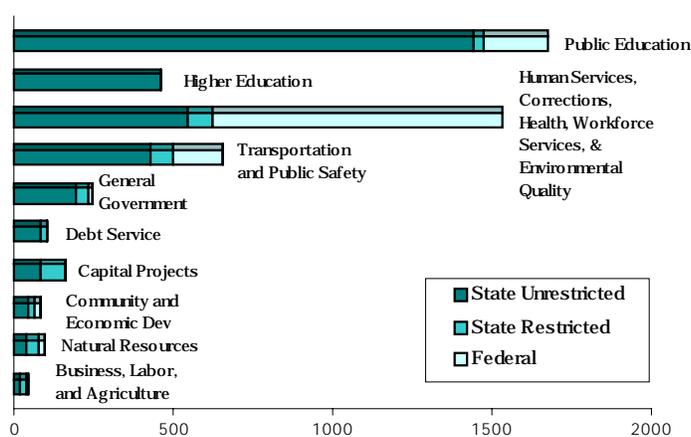
## FINANCIAL HIGHLIGHTS

### EXPENDITURES BY SOURCE

#### GOVERNMENTAL FUND TYPES ONLY

For the Fiscal Year Ended June 30, 1997

(Expressed in Thousands)



Expenditures of Unrestricted State Tax Sources

	Federal Sources	Percent of Total	Unrestricted State Tax Sources	Percent of Total	Restricted Fees and Other Sources	Percent of Total	Total Expenditures All Sources	Percent of Total
Education:								
Public	\$ 184,489	14.1%	\$ 1,443,364	43.5%	\$ 27,074	6.6%	\$ 1,654,927	32.8%
Higher	663	0.1	457,235	13.7	6,304	1.6	464,202	9.2
Human Services, Workforce Services, Health, Environmental Quality, and Corrections								
	863,017	65.9	543,746	16.3	73,853	18.1	1,480,616	29.4
Transportation and Public Safety								
	166,627	12.7	429,647	12.9	76,356	18.7	672,630	13.3
General Government								
	47,918	3.7	192,322	5.8	33,076	8.1	273,316	5.4
Debt Service								
	—	0.0	83,222	2.5	17,429	4.3	100,651	2.0
Capital Projects								
	—	0.0	82,657	2.5	99,472	24.4	182,129	3.6
Community and Economic Development								
	27,808	2.1	41,247	1.2	15,329	3.8	84,384	1.7
Natural Resources								
	15,232	1.2	37,884	1.1	38,540	9.5	91,656	1.8
Business, Labor, and Agriculture								
	3,265	0.2	15,816	0.5	20,026	4.9	39,107	0.8
Total	1,309,019	<u>100.0%</u>	<u>\$ 3,327,140</u>	<u>100.0%</u>	<u>\$ 407,459</u>	<u>100.0%</u>	<u>\$ 5,043,618</u>	<u>100.0%</u>
Other Federal Revenue for Loans and Nonexpended Programs								
	6,260							
Total Federal Revenue	<u>\$ 1,315,279</u>							

# STATE OF UTAH ORGANIZATION CHART

