

West Virginia

Comprehensive Annual Financial Report

For the
Fiscal Year
Ended
June 30, 2006



West Virginia

*Comprehensive Annual
Financial Report
For the Fiscal Year
Ended June 30, 2006*



Joe Manchin III
Governor

Robert W. Ferguson, Jr.
Cabinet Secretary
Department of Administration

Ross Taylor
State Comptroller
Department of Administration

*Prepared by the
Financial Accounting
and Reporting Section*



Governor Joe Manchin III



State of West Virginia
Joe Manchin III
Governor

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To the Honorable Members of the West Virginia Legislature
And the Citizens of West Virginia

I am pleased to provide you with the State of West Virginia Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. An independent certified public accounting firm has audited the basic financial statements contained in this report.

The CAFR demonstrates West Virginia's commitment to financial accountability and national standards. This document provides the Legislature and the citizens of West Virginia with the state's financial data. It can be accessed on the Internet at www.wvfinance.state.wv.us.

This report was compiled with the help of individuals throughout state government. Each state agency provided clear, concise information to ensure the highest level of financial accountability.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Joe Manchin III".

Joe Manchin III
Governor

ACKNOWLEDGMENTS

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Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible. The technical support of Information Services and Communications has been invaluable. Thanks to the Division of Tourism for their pictorial and technical assistance.

We invite you to visit our web site: www.wvfinance.state.wv.us

STATE OF WEST VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Introductory Section

Transmittal Letter

Certificate of
Achievement for
Excellence in
Financial Reporting

Organization Chart

Principal Officials





STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
DIVISION OF FINANCE

JOE MANCHIN III
GOVERNOR

ROBERT W. FERGUSON, JR.
CABINET SECRETARY

March 5, 2007

The Honorable Joe Manchin III, Governor
The Honorable Members of the West Virginia Legislature
The Citizens of West Virginia

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of West Virginia for the fiscal year ended June 30, 2006. This report has been prepared by the Financial Accounting and Reporting Section within the Division of Finance of the Department of Administration.

The CAFR has been prepared in conformity with the reporting model outlined by the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, and other related statements. This reporting model's objective is to provide a clear picture of the government as a single, unified entity as well as to provide traditional fund based financial statements. The State of West Virginia's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with generally accepted accounting principles in the United States (GAAP).

The independent audit of the financial statements of the State of West Virginia is part of a broader, federally mandated "Single Audit" designed to meet the requirements of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with requirements applicable to major programs. These reports are available in the State of West Virginia's separately issued Single Audit Report.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-wide Financial Statements, and Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units. The Financial Section also includes the Notes to the Financial Statements, and Required Supplementary Information, as well as the report of the independent auditors on the basic financial statements and schedules. The statistical section includes selected financial and demographic information generally presented on a multiyear basis.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

The CAFR consists of management's representations concerning the financial information of the State of West Virginia. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with U.S. generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The State of West Virginia's financial statements have been audited by Ernst & Young, LLP. The independent auditors concluded, based upon their audit and the reports of other auditors, that there was a reasonable basis for rendering an unqualified opinion.

Profile of the Government

The State of West Virginia provides a full range of services including: education, social and health services, transportation, public safety, conservation of natural resources, and economic development. In addition to general government activities, this report includes various discretely presented component units which are financially accountable to the State, or for which the nature and significance of their relationship with the State are such that their exclusion would cause this report to be misleading or incomplete. The criteria used to determine financial accountability of a particular entity are the appointment by a state official of a voting majority of the entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to or impose specific financial burdens on the State. See Note 1 (Summary of Significant Accounting Policies) for a comprehensive discussion of the criteria used in determining the State's financial reporting entity.

Budgetary control is maintained through legislative appropriations and the Executive Branch quarterly allotment process. Agencies submit budgetary requests to the State Budget Office. The State Budget Office compiles the Executive Budget on behalf of the Governor, who submits it to the Legislature. After the approval of the budget, the State Budget Office maintains control over the spending patterns of the State at the activity level and by use of the quarterly allotments. The State Auditor exercises control over spending at the annual appropriation level. All appropriations, except funds which are reappropriated, expire 31 days after fiscal year-end.

Economic Conditions and Outlook

West Virginia has a long tradition of mining and energy production and ranks second in the nation in coal production. Recently, West Virginia's economy has experienced a period of expansion in employment, reflecting growth in the energy sector, increased competitiveness due to productivity gains in its basic industries, the development of new capacity in the transportation equipment, wood products, plastics, and pharmaceutical industries, and significant employment increases in the services and trade sectors.

Unemployment has decreased significantly since the end of the last national recession. The State's rate inched downward one-tenth of a percentage point to 4.6% in December 2006. The seasonally adjusted unemployment rate remained steady at 5.1%, while the national rate was 4.5%. From the second quarter of 2003 to the second quarter of 2006 26,600 jobs have been added, with 7,500 of those jobs coming during the last four quarters. This job growth has been accompanied by both income and population gains.

In addition to an award-winning education system and digital infrastructure that draws nationally recognized companies, West Virginia has the commodity of the moment and the foreseeable future: power. West Virginia had the third highest surplus of power generated and not used within the State among all states in 2004, exporting 61 million megawatts of power. Besides being a leader in power generation, the State offers some of the lowest-cost power in the nation.

The energy sector has been a major source of economic growth in West Virginia over the past five years, adding 5,200 net new jobs. Increasing national interest in domestic coal-based alternatives to middle-east petroleum has fueled resurgence in the State's mining industry and significant increases in State severance tax revenues. The mining and related support sectors posted a net gain of over 5,191 jobs between 2000 and 2005, second only to leisure and hospitality services among traded sectors.

In addition, National energy policy has placed a new emphasis on coal, pledging the expenditure of up to \$2.0 billion over ten years to develop environmentally sound methods for burning coal to generate electrical power. Integrated Gasification Combined Cycle (IGCC) coal gasification technology with carbon sequestration appears to be the preferred

electric power production technology for the future. The outlook for coal production in West Virginia is positive. It was previously believed that the Kyoto Treaty would have a significant negative impact on the State's coal mining industry, but current and planned investments at coal-fired power plants have removed that threat. The increased use of stacked-gas scrubbers at coal-fired electricity generating facilities completely removes emissions of sulfur dioxide, a greenhouse gas targeted by Kyoto. This should result in increased production of high sulfur coal from northern West Virginia. In turn, this will result in increased employment in the coal industry and benefits that will flow throughout the State's entire economy.

Long-term Financial Planning and Relevant Financial Policies

Fiscal year 2006 ended with the State having a significant surplus and, as a result, the State was able to pay down part of its unfunded pension liabilities. Fiscal year 2007 is also projected to have a significant budget surplus. Revenue collections in the short term have been much better than the original estimates, mainly due to higher energy prices resulting in greater severance tax collections, and to increased corporate profits. Also, the Excess Lottery Fund continues to provide substantial surplus funds in the short term. These economic conditions result in sizable projected surplus funds available for FY 2007 and FY 2008.

Beginning in fiscal year 2009, we expect to be in a position where expenditures are expected to outpace projected revenues due to the Medicaid and Public Employees' Insurance Agency programs, and the increasing costs of maintaining adequate correctional facilities for juveniles and adults. It is the goal of the Manchin Administration to work to contain the growth of these key budget drivers in order to be able to set other priorities in education, tax reform and economic development.

The State has traditionally held funds for unforeseen circumstances in two primary funds, the Revenue Shortfall Reserve Fund (Rainy Day Fund) and the Tax Reduction and Federal Funding Increased Compliance (TRAFFIC) account maintained by the Legislature. During the 2006 Legislative Session, the Legislature dissolved the Tobacco Settlement Medical Trust Fund and created the Revenue Shortfall Reserve Fund - Part B to provide the State with additional usable reserves to meet unexpected challenges.

Major Initiatives

The State of West Virginia continues to progress favorably as a result of several initiatives implemented under the leadership of Governor Manchin. Continuing its focus on maintaining a "Responsible Government," West Virginia recently sought changes to its tax structure. Working with our State Legislature, Governor Manchin implemented major tax reforms as part of the West Virginia Tax Modernization Project. The goal of the project was to determine how the State's tax structure has developed and the options available to

improve the system. The initial phase of this endeavor offered income tax relief to working families by implementing an indexed family tax credit that eliminates the Personal Income Tax on families with incomes below the federal poverty level. In addition, the tax credit was expanded for property taxes paid by senior citizens on the first \$20,000 of assessed value over and above the homestead exemption.

A further reduction in the State food tax, from 5% to 4%, was approved for 2007, with an additional 1% reduction occurring in 2008. This effectively cuts this tax in half within two short years, taking into account the 1% reduction approved in 2006. To assist West Virginia businesses, a reduction in the Business Franchise Tax of more than 20 percent from .70 to .55 will result in annual tax savings of approximately \$25 million.

Additionally, the State continues to target efforts to create more jobs within West Virginia and to maintain the business activity currently in place. Estimates for 2006 showed an increase in employment from last year of 8,400, according to WORKFORCE West Virginia statistics, with new investments totaling \$1.4 million.

Other proactive initiatives illustrating the progressive forward movement of the State include:

- Reducing the State's debt by more than \$900 million by making extra payments to State retirement funds;
- Establishing a West Virginia Coal Conversion Initiative that is putting the State at the forefront of our nation's energy efforts and will help to end our dependence upon foreign sources of oil;
- Signing the minimum wage bill – showing the entire nation that West Virginians truly care about our workers and their families; and
- Conducting a performance review of State government, resulting in a plan that should save more than \$300 million during the next five years by running State operations more efficiently and effectively.

During this past year, tragedy struck our state's mining industry, resulting in dramatic changes in mine safety laws. After the loss of several of our state miners in January 2006 in two separate mining accidents, legislation was passed strengthening mine safety in West Virginia. Senate Bill 247 made underground mining safer by requiring rapid response to mine accidents, electronic tracking equipment on miners working underground, and additional portable air stations and supplies in underground mines. This proactive legislation in our state led the federal government to pass similar statutory changes, affecting all states in the union.

The State of West Virginia is known for its honorable heritage, beautiful landscape, and hardworking people. With a focus on getting the ‘State’s financial house in order,’ West Virginia State government continues to work toward providing a more stable, secure fiscal base for the programs and services offered to its citizens. Substantial enhancements have been made this year as positive momentum continues to grow the State.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of West Virginia for its CAFR for the fiscal years ended June 30, 1995 through 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA. Other State entities that have been awarded the Certificate of Achievement include the Board of Risk and Insurance Management, PEIA, the Department of Transportation, the Housing Development Fund, the Parkways, Economic Development and Tourism Authority, the West Virginia Lottery, and the West Virginia Prepaid College Plan.

Acknowledgments

The annual budget document, prepared by the State Budget Office, provides additional information related to budget priorities and goals, including acknowledgment of significant accomplishments of various agency programs. The budget document has received the GFOA’s Award for Distinguished Budget Presentation Program for the fiscal years 1997 through 2005 budgets.

The CAFR is an example of the Governor’s unwavering belief in, and commitment to, the State’s financial accountability. Acknowledgment is given to the Legislature and its leadership for their commitment to sound budgeting and to meeting the financial obligations of the State. This report would not be possible without the support of all West Virginia state agencies. The State’s continued success directly depends upon their cooperation and support.

Sincerely,



Robert W. Ferguson, Jr.
Cabinet Secretary

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

State of West Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



A handwritten signature in black ink, appearing to read "Ronald J. Haen".

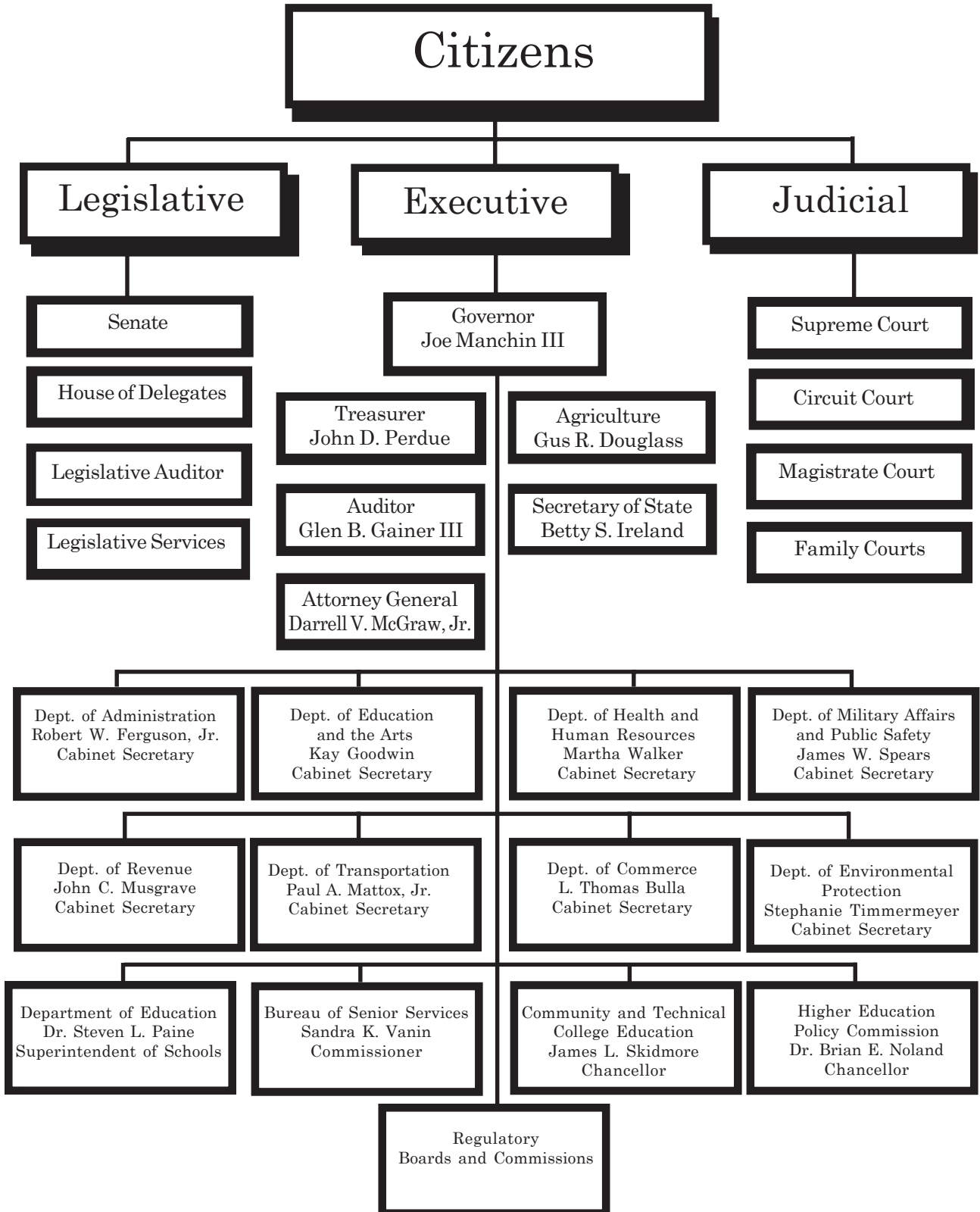
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

West Virginia

Organization Chart
As of December 31, 2006



State of WEST VIRGINIA

Principal Officials

Executive Branch

Governor
Joe Manchin III

Agriculture Commissioner
Gus Douglass

Attorney General
Darrell V. McGraw, Jr.

State Auditor
Glen B. Gainer III

Secretary of State
Betty Ireland

State Treasurer
John Perdue

Legislative Branch

President of the Senate
Earl Ray Tomblin

Speaker of the House
Robert S. Kiss

Chairman
Senate Finance
Walt Helmick

Chairman
House Finance
Harold K. Michael

Judicial Branch

Supreme Court
Chief Justice
Robin Jean Davis

Supreme Court Justice
Elliott E. Maynard

Supreme Court Justice
Joseph P. Albright

Supreme Court Justice
Brent D. Benjamin

Supreme Court Justice
Larry V. Starcher

Financial Section

Report of
Independent
Auditors

Management's
Discussion
and Analysis



Report of Independent Auditors

The Honorable Joe Manchin III, Governor
of the State of West Virginia

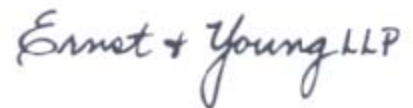
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia (the State) as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities within the governmental activities, the business-type activities, the aggregate discretely presented component units, certain major funds, and the aggregate remaining fund information, which represent 72 percent of total assets, 89 percent of net assets, and 39 percent of total revenues for the governmental activities; 82 percent of total assets, 93 percent of net assets, and 78 percent of total revenues for the business-type activities; 100 percent of total assets, 100 percent of net assets, and 100 percent of total revenues for the aggregate discretely presented component units; 100 percent of total assets, net assets, and total revenues of the following major funds—Transportation, West Virginia Infrastructure and Jobs Development Council, West Virginia Lottery, Water Pollution, Workers' Compensation, and Unemployment Compensation; and 94 percent of total assets, 96 percent of net assets/fund balance, and 92 percent of the total revenues/additions for the aggregate remaining fund information, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain entities within the governmental activities, business-type activities, aggregate discretely presented component units, certain major funds, and certain entities within the aggregate remaining fund information, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the State's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 4 through 19, the budgetary comparison information on pages 156 through 163, and pension plans schedule of funding progress on pages 164 to 166 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements and schedules on pages 168 through 209, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



March 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of West Virginia's Comprehensive Annual Financial Report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and the State's financial statements, which follow this section.

West Virginia implemented several new standards in 2006 required by the Governmental Accounting Standards Board (GASB). Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," Statement No. 44, "Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement 1," Statement No. 46, "Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34," and Statement No. 47, "Accounting for Termination Benefits," were implemented. The implementation of these Statements did not have a material effect on the financial statements.

FINANCIAL HIGHLIGHTS

Government-wide:

The assets of the primary government exceeded its liabilities at the close of the fiscal year by \$6.5 billion (reported as "net assets"). Governmental activities reported \$7.6 billion in net assets (an \$684 million increase, up 9.9% from last year), while the business-type activities reported a deficit of \$1.1 billion, a \$370 million decrease in the deficit. The State's net assets improvements are primarily due to a better economy, more revenue from certain taxes, and reduced spending.

Fund Level:

At year-end, the governmental funds reported a combined ending fund balance of \$2.75 billion, an increase of \$334 million, or 13.8%, in comparison with the prior year. The unreserved fund balance for the general fund was \$684 million, or 10%, of total general fund expenditures.

General Revenue surpluses allowed \$89 million to be transferred to the Revenue Shortfall Reserve Fund (Rainy Day Fund).

Long-Term Obligations:

There was a net decrease in the State's long-term obligations of \$423 million. The decrease includes bond and lease principal payments of \$82 million and the refinancing of West Virginia Infrastructure and Jobs Development Council bonds of \$55 million. This has been offset by new revenue bonds and capital leases of \$71 million. Significant changes in the obligation included a decrease of Insurance and Compensation Benefits of \$360 million

partially due to the privatization of the workers' compensation fund and the dedication of new sources of revenue to pay off the liability for claims incurred on or before June 30, 2005. See Note 14 for a more detailed explanation about the privatization and funding plan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of West Virginia's basic financial statements. The basic financial statements include: the government-wide financial statements, fund financial statements, and notes to the financial statements.

The basic financial statements include two kinds of statements that present different views of the State. The statement of net assets and the related statement of activities are *government-wide financial statements* that provide both long-term and short-term information about the State's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the State's government, reporting the State's operations in more detail than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that presents budgetary comparisons and pension plans schedule of funding progress as required by the Governmental Accounting Standards Board. In addition to these required elements, we have included a *combining financial statements and schedules* section that provides details about our nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units, each of which are added together and presented in single columns in the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The statement of net assets and the statement of activities together comprise the government-wide statements, which report information about the State as a whole using the full accrual basis of accounting similar to those used by private-sector companies. This means all revenues and expenses are recognized regardless of whether cash has been received or paid, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. In evaluating the State's overall condition, additional nonfinancial factors should be considered, such as the State's economic outlook, changes in its demographics, and the condition of its capital assets, including infrastructure.

The activities on the government-wide financial statements are divided into three categories:

- *Governmental activities* – Most of the State’s basic services are included under these activities, such as education, health and human resources, military affairs and public safety, judicial, and administration. Personal income taxes and consumer sales taxes finance most of these activities.
- *Business-type activities* – The State charges fees to customers to help it cover all or a significant portion of the costs of certain services it provides. The Workers’ Compensation Fund, Public Employees’ Insurance Agency, and the Board of Risk and Insurance Management, among other funds, are examples of these activities.
- *Component units* – The State includes several other entities in its report, for which it is financially accountable—such as West Virginia Housing Development, Parkways, Economic Development and Tourism Authority, and Higher Education. Separately issued financial statements are also available for these component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the State’s *major funds*, not the State as a whole. Funds are accounting devices that the State uses to track specific sources of funding and spending for particular purposes. Certain funds are required by the West Virginia Constitution and others are required by bond covenants. The State Legislature establishes other funds to control and manage money for particular purposes or to show that certain taxes and grants are used properly.

The State has three kinds of funds:

- *Governmental funds* – Most of the State’s basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that may readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view to help determine whether there are more or fewer financial resources that may be spent in the near future to finance the State’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the pages immediately following each statement, explaining the relationship (or differences) between them and the government-wide statements.

- *Proprietary funds* – Proprietary funds include enterprise funds and internal service funds. They account for state activities that are operated in a manner similar to private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the accrual basis of accounting and provide both long- and short-term financial information. Services for which the State charges external customers a fee are generally reported in enterprise funds. Activities where customers are mostly other State agencies are accounted for in internal service funds. The internal service funds are consolidated with the governmental activities on the government-wide statements because they predominantly benefit the governmental rather than business-type activities.
- *Fiduciary funds* – Fiduciary funds account for assets held for the benefit of parties outside of state government. The State is the trustee, or *fiduciary*, for its employees' pension plans and other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets, where applicable. These funds are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

Reconciliation Between Government-wide and Fund Statements

The financial statements contain schedules that reconcile the differences between the government-wide financial statements (long-term focus, accrual accounting) and the fund financial statements (short-term focus, modified accrual accounting). The following summarizes the primary differences between modified accrual to accrual accounting:

- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.
- Capital outlay spending results in expenditures on the governmental fund statements; however, on the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. The excess of capital outlay over depreciation expense is included on the government-wide statement of activities.

- Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces the long-term liabilities on the government-wide statement of net assets.
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities and net revenue of the internal service funds are reported with governmental activities on the government-wide statements.
- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.
- Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues and expenditures in the funds.

Notes to the Financial Statements

The notes provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information

Following the Basic Financial Statements are required supplementary information related to budgetary comparison schedules for the governmental funds with legally adopted annual budgets and a schedule of funding progress for pension plans along with notes with explanatory information.

Combining Financial Statements and Schedules

The combining financial statements and schedules include combining statements for the State's nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State's combined net assets (governmental and business-type) increased \$1.1 billion over the course of this fiscal year's operations. The net assets of the governmental activities increased \$684 million, or 9.9%, and business-type activities had an increase of \$370 million, or 25.7%. The overall increase in the State's net assets is due primarily to increased Lottery sales, additional taxes collected due in large part to a growing economy, and better

management of the risk and insurance funds. As discussed in Note 2 of the basic financial statements, beginning of the year net assets were increased \$117.6 million to reflect certain capital assets that had been previously omitted in error.

**Net Assets as of June 30
(Expressed in Thousands)**

	<u>Governmental Activities</u>		<u>Total Business-type Activities</u>		<u>Primary Government</u>	
	<u>2006</u>	<u>2005 Restated</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005 Restated</u>
Current and Other Assets	\$ 3,692,635	\$ 3,460,543	\$ 2,742,943	\$ 2,909,319	\$ 6,435,578	\$ 6,369,862
Capital Assets	<u>7,625,885</u>	<u>7,328,398</u>	<u>2,775</u>	<u>9,361</u>	<u>7,628,660</u>	<u>7,337,759</u>
Total Assets	<u>11,318,520</u>	<u>10,788,941</u>	<u>2,745,718</u>	<u>2,918,680</u>	<u>14,064,238</u>	<u>13,707,621</u>
Current and Other Liabilities	1,043,875	1,100,286	686,195	904,357	1,730,070	2,004,643
Long-Term Liabilities	<u>2,696,776</u>	<u>2,794,918</u>	<u>3,130,094</u>	<u>3,454,806</u>	<u>5,826,870</u>	<u>6,249,724</u>
Total Liabilities	<u>3,740,651</u>	<u>3,895,204</u>	<u>3,816,289</u>	<u>4,359,163</u>	<u>7,556,940</u>	<u>8,254,367</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	6,771,494	6,448,005	2,775	9,361	6,774,269	6,457,366
Restricted	714,802	1,262,989	944,256	775,140	1,659,058	2,038,129
Unrestricted (Deficit)	<u>91,573</u>	<u>(817,257)</u>	<u>(2,017,602)</u>	<u>(2,224,984)</u>	<u>(1,926,029)</u>	<u>(3,042,241)</u>
Total Net Assets (Deficit)	<u>\$ 7,577,869</u>	<u>\$ 6,893,737</u>	<u>\$(1,070,571)</u>	<u>\$(1,440,483)</u>	<u>\$ 6,507,298</u>	<u>\$ 5,453,254</u>

Net Assets

The largest component of the State's net assets is the amount invested in capital assets (e.g., land, buildings, equipment, infrastructure, and others), less any related debt outstanding needed to acquire or construct the assets. Capital assets are used to provide services to citizens; therefore, they are not available for future spending or to pay off their related liabilities. As of June 30, 2006, unrestricted net assets were in a deficit position of \$1.9 billion. This deficit is the result of, among other things, the historical negative claims payment trends of the Workers' Compensation Fund which are improving due to changes in funding the old liability and privatizing the activity on December 31, 2005 (discussed in detail in Note 14). WORKFORCE West Virginia (formerly the Bureau of Employment Programs) and Prepaid Tuition net asset (deficits) (discussed in Note 3), increased Medicaid expenses, substantial unfunded long-term liabilities related to environmental programs, net pension obligations, and revenue bonds issued to fund local school construction and economic development grants which exceed currently available resources also contribute to the deficit.

Restricted net assets comprise 25% of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted include funds for construction projects, debt service, lending activities, and medical and health care programs of the State.

Changes in Net Assets

The chart below represents financial information derived from the Government-wide Statement of Activities and reflects the State's total revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005, (expressed in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005 Restated	2006	2005	2006	2005 Restated
Revenues						
Program Revenues:						
Charges for Services	\$ 427,161	\$ 357,936	\$ 2,917,964	\$ 2,942,244	\$ 3,345,125	\$ 3,300,180
Operating Grants and Contributions	2,897,802	3,056,039	—	—	2,897,802	3,056,039
Capital Grants and Contributions	458,087	480,191	20,241	—	478,328	480,191
General Revenues:						
Personal Income Tax	1,330,913	1,163,211	—	—	1,330,913	1,163,211
Consumer Sales Tax	981,536	979,357	—	—	981,536	979,357
Business Taxes	920,940	726,878	—	—	920,940	726,878
Transportation Taxes	501,022	502,659	—	—	501,022	502,659
Other Taxes	552,584	531,948	—	—	552,584	531,948
Other Revenues	178,646	205,258	162,605	103,477	341,251	308,735
Total Revenues	8,248,691	8,003,477	3,100,810	3,045,721	11,349,501	11,049,198
Program Expenses:						
Legislative	25,345	27,558	—	—	25,345	27,558
Judicial	77,789	77,668	—	—	77,789	77,668
Executive	104,726	134,506	—	—	104,726	134,506
Administration	147,774	210,434	—	—	147,774	210,434
Commerce	235,749	229,216	—	—	235,749	229,216
Environmental Protection	125,216	267,544	—	—	125,216	267,544
Employment Programs	72,069	31,445	—	—	72,069	31,445
Education	2,669,307	2,418,672	—	—	2,669,307	2,418,672
Health and Human Resources	3,119,005	3,221,458	—	—	3,119,005	3,221,458
Military Affairs and Public Safety	417,606	588,409	—	—	417,606	588,409
Revenue	71,158	32,718	—	—	71,158	32,718
Transportation	780,950	835,813	—	—	780,950	835,813
Senior Services	30,115	29,373	—	—	30,115	29,373
Regulatory Board and Commissions	33,082	25,671	—	—	33,082	25,671
Interest on Long-term Debt	93,401	85,402	—	—	93,401	85,402
West Virginia Lottery	—	—	1,096,893	839,241	1,096,893	839,241
Workers' Compensation Fund	—	—	392,975	189,753	392,975	189,753
Unemployment Compensation	—	—	147,308	143,989	147,308	143,989
Water Pollution Control Revolving Fund	—	—	1,718	1,786	1,718	1,786
Public Employees' Insurance Agency	—	—	545,384	506,837	545,384	506,837
Board of Risk and Insurance Management	—	—	41,256	60,969	41,256	60,969
Other Nonmajor Business-type	—	—	66,631	58,910	66,631	58,910
Total Expenses	8,003,292	8,215,887	2,292,165	1,801,485	10,295,457	10,017,372
Increase (Decrease) in Net Assets Before						
Transfers	245,399	(212,410)	808,645	1,244,236	1,054,044	1,031,826
Transfers	438,733	484,308	(438,733)	(484,308)	—	—
Increase in Net Assets	684,132	271,898	369,912	759,928	1,054,044	1,031,826
Net Assets (Deficit), Beginning of Year (See Note 2)	6,893,737	6,621,839	(1,440,483)	(2,200,411)	5,453,254	4,421,428
Net Assets (Deficit), End of Year	\$7,577,869	\$6,893,737	\$(1,070,571)	\$(1,440,483)	\$ 6,507,298	\$ 5,453,254

Governmental Activities

The State's net assets before transfers increased by \$245 million for governmental activities, primarily due to the increase of tax revenues and a large decrease in expenditures in several agencies and capitalization of assets.

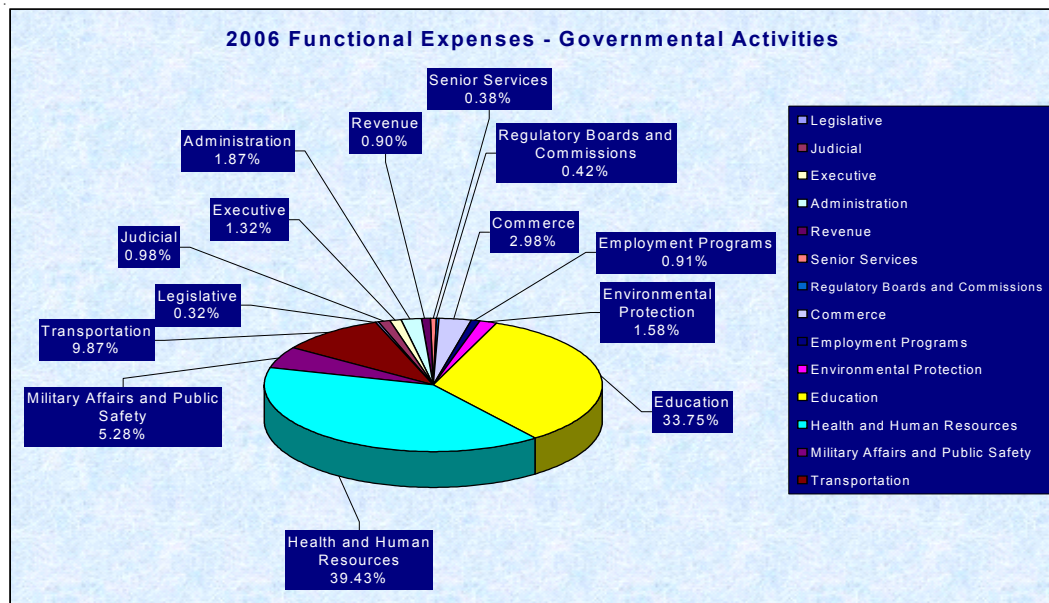
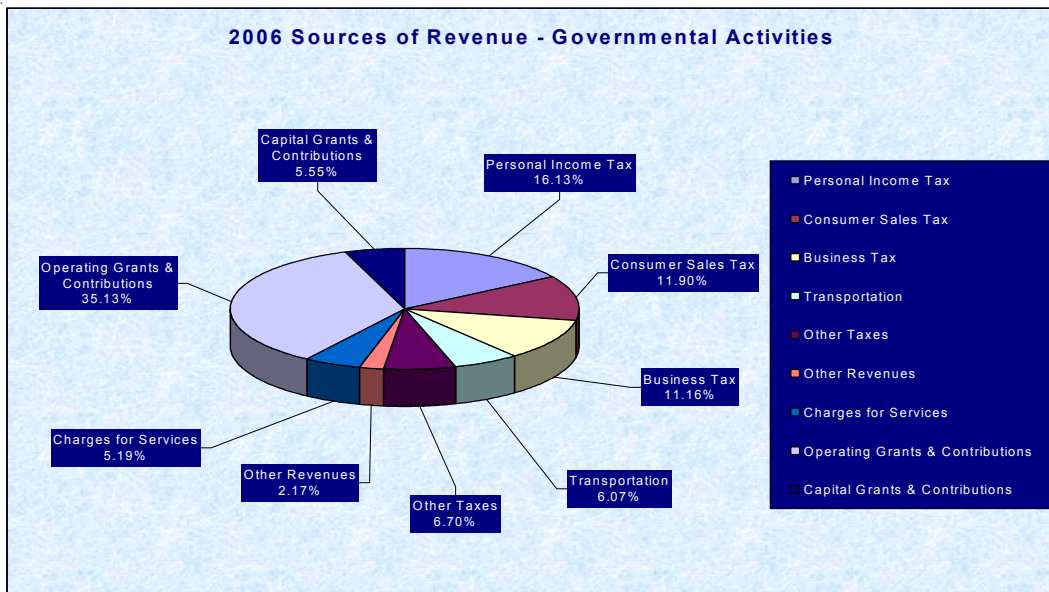
Operating grants and contributions are down \$158 million from last year. The State's Medicaid rate decreased from 75% to 73%, a decrease of approximately \$50 million. Environmental Protection directed Water Pollution grant money (\$20 million) straight to that enterprise fund instead of through its governmental fund first. Military Affairs and Public Safety (MAPS) received \$35 million less due to completion of several large armory construction projects.

Personal income taxes increased by approximately \$168 million due to the improving economy and job creation. Employment grew by roughly 1.5%, with a significant portion of the gain in higher paying goods-producing sectors, particularly mining and construction. In addition, more business profits are being taxed at an individual income level. Included in the business tax increase of \$194 million is an increase in severance taxes related to higher energy prices from coal and natural gas. Despite an \$11 million tax cut (the reduction of taxes on food), consumer sales tax collections rose by 5.3%. The increase was due to higher prices in construction materials and a healthy residential construction sector. A 9% increase in cigarette sales added to sales tax collections due largely to increased prices on cigarettes in neighboring states.

The other revenues line decrease is primarily due to increased investment earnings and the tobacco settlement revenue being moved to the Workers' Compensation Fund in the business-type activities.

Program expenses were down in Executive, Administration, Environmental Protection, Health and Human Resources (DHHR), MAPS, and Transportation. The lower Executive expenses were due to reduced need for flood and disaster related spending. Administration expenses decreased primarily due to a reduction in claims and judgments from the prior year. In 2005 Environmental Protection had its first actuarial study completed for the Special Reclamation Fund, which significantly increased their prior year long-term liabilities and expenses. A study will be performed every two years which should stabilize the liabilities and expenses for this fund going forward. DHHR had decreased Medicaid expenditures in the current year. Expenditures for MAPS decreased \$171 million primarily due to fewer disasters. Transportation reduced its spending approximately \$55 million in response to an executive order freezing the variable sales and use tax on motor fuel and a milder winter. Education program expenses increased \$251 million partly for increased salaries and benefits, including pension costs. An agency, with approximately \$35 million in expenditures, was legislatively moved from Commerce to the Employment Programs function.

The following charts depict revenues and expenses, respectively, of the governmental activities for the fiscal year. Approximately 45% of the total revenues came from personal income, consumer sales, business taxes, and transportation taxes, while 41% was in the form of grants and contributions (see chart below). The State's governmental activities expenses include 40% for health and human resources and 34% for education (see chart below).



Business-type Activities

Business-type activities increased the State's net assets by \$809 million before transfers of \$439 million to governmental activities. Significant contributors to this change were:

- The West Virginia Lottery gaming receipts exceeded expenses by approximately \$652 million, an increase of approximately \$118 million. The Lottery's revenues are transferred out to other funds, with the exception of \$250,000 operating funds and \$20 million allocated for a new building.
- The Workers' Compensation Fund (WCF), the Board of Risk and Insurance Management (BRIM), and Public Employees' Insurance Agency (PEIA) had billed premiums in excess of incurred claims, in the amount of \$332 million, \$42 million, and \$49 million, respectively. Overall operating expenses were down. WCF's expenses only relate to the run-off of claims incurred prior to July 1, 2005; BRIM had significant reductions in claims primarily from the effect of the two medical schools' new deductible program; and both BRIM and PEIA had favorable claims development and premium increases.
- Unemployment Compensation recorded a net change before transfers of approximately \$17 million. This is consistent with the prior year net gain of \$16 million, primarily due to cost controls.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements.

At the end of the current fiscal year, the State's governmental funds reported an ending fund balance of \$2.75 billion, an increase of \$334 million in comparison with the prior year. An improving economy with energy as the lead sector helped improve the State's bottom line in FY 2006. A rise in average coal prices and higher natural gas prices contributed to positive revenue growth during the year. Cost controls were also a major factor.

West Virginia

Governmental Fund Balances at June 30, 2006 (Expressed in Thousands)

	General Fund	Transportation	West Virginia Infrastructure and Jobs Development Council
Reserved	\$ 328,482	\$ 35,514	\$360,845
Unreserved, Designated	395,670	—	128,405
Unreserved	<u>684,181</u>	<u>210,812</u>	<u>82,082</u>
Total	<u>\$1,408,333</u>	<u>\$246,326</u>	<u>\$571,332</u>

The nonmajor governmental funds decreased \$242 million due to the Tobacco Settlement Medical Trust Fund being abolished and the funds being moved to the Revenue Shortfall Reserve Fund - Part B, which is in the general fund. Approximately 27% of the total fund balance is unreserved and available for spending in the coming year. The remainder of the fund balance is reserved, indicating it is not available for spending because it has been committed to pay debt service (\$132 million); to fund capital projects (\$236 million); held in permanent funds for education (\$1.8 million); or for a variety of other specific purposes (\$13.7 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$684 million, and the unreserved, designated fund balance was \$395.6 million, while total fund balance reached \$1.4 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10% of total general expenditures, while total fund balance represents 20.8% of the same amount.

Cash and investments in the general fund are up \$353 million due to the creation of the Revenue Reserve Shortfall - Part B fund using the Tobacco Medical Trust Fund (\$242 million) and an increase in tax collections discussed previously.

MAPS expenditures decreased approximately \$220 million over the prior year, primarily due to less construction and fewer disasters. Education's expenses were up approximately \$256 million partly for increased salaries and benefits, including pension costs.

Transportation had an unreserved fund balance of \$211 million, up 6.6% from the prior year primarily due to cost containment measures. The reserved balance of \$35.5 million is primarily for inventory. Transportation revenues were up \$14.6 million from the Gas and Motor carrier tax revenue and expenditures were up \$29 million due to increased road construction.

The West Virginia Infrastructure and Jobs Development Council's total fund balance increased \$42.5 million and the unreserved fund balance increased \$25 million. These changes were due to an increase in dedicated mineral severance taxes, excess lottery appropriations, and investment earnings. The reserved fund balance, \$361 million, is money committed but not distributed to entities for loans/grants and loans receivable (\$320 million) which are not available for appropriation. Revenues increased \$3.7 million due to higher investment earnings.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds are comprised of enterprise and internal service funds. Enterprise funds are used when services the State provides are charged to external customers. Internal service funds are used when services are provided to other state agencies. The six major enterprise funds include the West Virginia Lottery, Water Pollution Control Revolving Fund, Workers' Compensation Funds, Unemployment Compensation, Public Employees' Insurance Agency, and the Board of Risk and Insurance Management.

Other factors concerning the finances of the major enterprise funds have already been addressed in the discussion of business-type activities.

GENERAL REVENUE FUND BUDGETARY HIGHLIGHTS

The revenues of the final amended budget increased by approximately \$263 million. Management is strategically planning for lower original budgeted revenue to prevent agencies from overcommitting these funds, because the Lottery revenue is likely to decrease in the near future. Personal Income Tax revenue increased \$86.5 million because of gains in business income, natural resource royalty payments, favorable equity markets, improved employment, and higher paying jobs in the mining and construction sectors. Corporate tax collections rose by more than \$63.5 million allowing an increase in the budget. The average prices of, and demand for, coal and natural gas are up and severance taxes increased \$54 million.

A positive variance between the final budgeted revenues and actual results arose from larger than expected increases in personal income tax (\$58.7 million), consumer sales tax (\$21.4 million), severance tax (\$12.7 million), and corporate income/business franchise tax (\$39.6 million).

The increased revenues of the final amended budget allowed the expenditures to increase approximately \$298.5 million. The following departments received the majority of the increases: Administration was appropriated an additional \$187 million for payment to the Teachers' Retirement System Accumulation Fund and \$58 million to help pay down the unfunded liability of the Public Safety Death, Disability, and Retirement Fund. Commerce was appropriated \$14 million to be used for infrastructure projects. Education was appropriated an additional \$57 million mainly for State employee and teachers pay raises. DHHR received \$8.6 million for capital outlay. MAPS received \$10 million for construction of a new juvenile detention center, \$8.3 million for payment to WV Regional Jail Authority, \$2.9 million for other capital outlay, and \$4.6 million for Homeland Security.

The positive variance of the excess of revenues over expenditures was approximately \$262.5 million from increased revenues and cautious spending. After expenditures from prior year appropriations, the excess was \$102 million, allowing an \$88.8 million deposit into the State's Rainy Day Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006 the State had invested \$7.6 billion, net of accumulated depreciation, in a broad range of capital assets shown below. Depreciation expense for the year totaled \$299.9 million. As discussed in Note 2 of the basic financial statements, the 2005 amounts have been restated by \$117.6 million to include certain capital assets that had been previously omitted in error.

Capital Assets at Year-End (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005 Restated	2006	2005	2006	2005 Restated
Land and Improvements	\$ 906,569	\$ 869,877	\$ 611	\$ 611	\$ 907,180	\$ 870,488
Building and Improvements	547,790	477,934	1,371	1,501	549,161	479,435
Equipment	90,728	78,518	793	7,249	91,521	85,767
Library Holdings	336	657	—	—	336	657
Construction in Progress	1,249,836	1,050,269	—	—	1,249,836	1,050,269
Infrastructure	<u>4,830,626</u>	<u>4,851,143</u>	—	—	<u>4,830,626</u>	<u>4,851,143</u>
Totals	<u>\$7,625,885</u>	<u>\$7,328,398</u>	<u>\$2,775</u>	<u>\$9,361</u>	<u>\$7,628,660</u>	<u>\$7,337,759</u>

The total increase, net of disposals and accumulated depreciation, in the State's investment in capital assets for the current fiscal year approximated \$291 million. The most significant increases in capital assets during the year were \$70 million of building and improvements and \$200 million in construction in progress. These increases are primarily related to the addition and restatement of facilities under the Military Affairs and Public Safety function. The decrease in the business-type activities is related to the privatization of the workers' compensation activity. Additional information for the State's capital assets can be found in Note 9 of this report.

Long-Term Debt

At year-end the State had \$6.5 billion in bonds, capital leases, claims and judgments, compensated absences, pension obligations, and other long-term obligations outstanding, as shown in the table below. The State's general obligation bonds are rated AA- by Standard and Poor's Corporation and Fitch Investors Service. The Moody's Investors Service rating is Aa3. More detailed information related to the State's overall debt position is presented in Note 10 to the financial statements.

The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of the general obligation debt. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Neither the West Virginia Constitution nor its statutes establish a general limit on any type of debt.

Outstanding Debt at June 30
(Expressed in Thousands)

	Governmental Activities		Total Business-type Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 772,912	\$ 798,490	\$ —	\$ —	\$ 772,912	\$ 798,490
Revenue Bonds	726,249	763,761	—	—	726,249	763,761
Capital Leases	354,000	354,337	—	—	354,000	354,337
Accrued and Other Liabilities	504,170	491,555	112,916	111,524	617,086	603,079
Insurance and Compensation Benefits	—	—	3,542,598	3,902,210	3,542,598	3,902,210
Compensated Absences	278,444	276,099	4,511	8,623	282,955	284,722
Pension Obligations	260,822	276,175	—	—	260,822	276,175
Totals	<u>\$2,896,597</u>	<u>\$2,960,417</u>	<u>\$3,660,025</u>	<u>\$4,022,357</u>	<u>\$6,556,622</u>	<u>\$6,982,774</u>

The West Virginia Infrastructure and Jobs Development Council had two revenue refunding bond issues totalling \$54.8 million that refunded Series 2000A and Series 2003A revenue bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2007 budget was developed anticipating revenue forecasts remaining stable and revenue growth projected to be within the 3.0% to 3.5% range, which is much more in line with normal growth patterns. However, because the recent growth in the General Revenue Fund for the past two years has outpaced the expenditure need in the short term, there is anticipated to be a General Revenue surplus of approximately \$175 million in FY 2007.

Due to the surplus described above, it has been recommended that additional funds be put into the Revenue Shortfall Reserve Fund (Rainy Day Fund). These funds, along with continued efficiencies and program review, will assist in providing funds that will be needed in the future, not only for the anticipated shortfalls predicted beginning FY 2009 but also unknown and unanticipated contingencies or emergencies. These surplus funds are not intended to be used for new programs.

During FY 2005, the Legislature approved a 1% decrease (6% to 5%) in the consumer sales tax related to food, which began January 1, 2006. It is anticipated that at least another 1% will be reduced during FY 2008.

From the funds available for FY 2007, the major items of increased expenditures in the Governor's Executive Budget are as follows:

- Funding for Medicaid, Children's Health Insurance Plan, and social service programs
- Funding for public health and behavioral health programs
- Funding for the operation of new or expanding correctional and juvenile facilities
- Funding for the operation of the new Veterans' Nursing Home
- Funding to address ongoing routine maintenance and repair of State-owned facilities
- Funding for higher education scholarships
- Funding for nutrition programs and in-home services for senior citizens
- Funding for the enhancement of State troopers' salaries
- Funding for the November 1, 2005, salary increase for the full year and statutory salary increases in public education

The FY 2007 budget includes a five-year plan showing the projected revenues and expenditures from FY 2006 through FY 2011. This plan will be used to identify where projected expenditures begin to outpace projected revenues so surplus revenues, actual and projected, will not be expended for items that would add new obligations to the base budget, but rather be deposited into a “savings” account to be available to be used in the future to assist in offsetting these anticipated shortfalls.

CONTACTING THE STATE’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State’s finances and to demonstrate the State’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Financial Accounting and Reporting Section, 2101 Washington St. East, Building 17, 3rd Floor, Charleston, WV 25305.

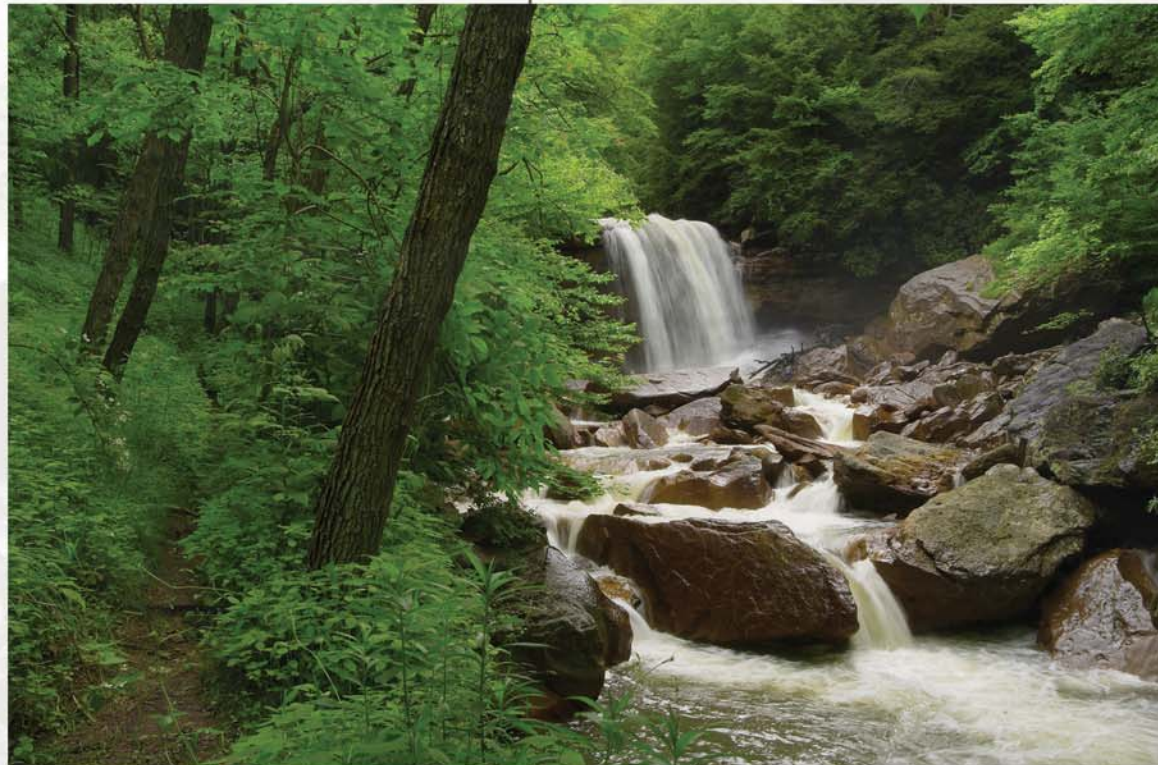


Basic Financial Statements

Government-Wide

Major Funds

Notes 1 - 16



West Virginia

Statement of Net Assets June 30, 2006 (Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$ 1,542,245	\$1,613,565	\$ 3,155,810	\$ 479,627
Investments	658,676	154,630	813,306	16,449
Receivables, Net	908,428	163,862	1,072,290	132,002
Due from Other Governments	227,186	1,202	228,388	—
Due from Primary Government	—	—	—	17,106
Due from Fiduciary Funds	96	—	96	—
Due from Component Units	2,652	405	3,057	—
Internal Balances	103,377	(103,377)	—	—
Inventories	44,760	625	45,385	8,208
Other Assets	3,245	1,455	4,700	9,088
Restricted Assets:				
Cash and Cash Equivalents	1,922	7,794	9,716	66,437
Investments	—	57	57	16,935
Other Restricted Assets	—	84,304	84,304	139
Total Current Assets	<u>3,492,587</u>	<u>1,924,522</u>	<u>5,417,109</u>	<u>745,991</u>
Noncurrent Assets:				
Cash and Cash Equivalents	—	—	—	45,816
Investments	—	177,949	177,949	386,115
Receivables, Net	29,973	598,345	628,318	222,654
Other Assets	5,806	—	5,806	33,046
Advance to Component Units	121,934	—	121,934	—
Net Pension Asset	4,985	—	4,985	—
Restricted Assets:				
Cash and Cash Equivalents	37,350	20,000	57,350	69,770
Investments	—	21,755	21,755	173,653
Receivables, Net	—	372	372	1,069,822
Other Restricted Assets	—	—	—	5,483
Land and Other Capital Assets				
Not Being Depreciated	2,148,463	611	2,149,074	430,780
Capital Assets, Being Depreciated (Net of Accumulated Depreciation)	<u>5,477,422</u>	<u>2,164</u>	<u>5,479,586</u>	<u>1,784,956</u>
Total Noncurrent Assets	<u>7,825,933</u>	<u>821,196</u>	<u>8,647,129</u>	<u>4,222,095</u>
Total Assets	<u>11,318,520</u>	<u>2,745,718</u>	<u>14,064,238</u>	<u>4,968,086</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	211,680	25,650	237,330	61,101
Interest Payable	4,136	—	4,136	28,883
Accrued Tuition Contract Benefits	—	7,829	7,829	—
Accrued and Other Liabilities	508,069	40,533	548,602	113,216
Due to Other Governments	137,930	3,123	141,053	—
Due to Primary Government	—	—	—	3,057
Due to Fiduciary Funds	7	69,042	69,049	364
Due to Component Units	16,683	423	17,106	—
Unearned Revenue	5,367	17,493	22,860	50,571
Insurance and Compensation				
Benefits Obligations	—	521,195	521,195	—
Liabilities Payable from Restricted Assets	—	336	336	—
General Obligation Debt	32,767	—	32,767	—
Revenue Bonds Payable	38,892	—	38,892	93,275
Capital Leases	17,332	—	17,332	7,574
Compensated Absences	<u>71,012</u>	<u>571</u>	<u>71,583</u>	<u>35,060</u>
Total Current Liabilities	<u>1,043,875</u>	<u>686,195</u>	<u>1,730,070</u>	<u>393,101</u>

The accompanying notes are an integral part of the financial statements.

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	100,492	100,492	—
Accrued and Other Liabilities	464,352	—	464,352	2,403
Unearned Revenue	—	—	—	4,052
Insurance and Compensation Benefits Obligations	—	3,021,403	3,021,403	—
Advances from Primary Government	—	—	—	121,934
Liabilities Payable from Restricted Assets	—	4,259	4,259	57,510
General Obligation Debt	740,145	—	740,145	—
Revenue Bonds Payable	687,357	—	687,357	1,800,847
Capital Leases	336,668	—	336,668	49,804
Net Pension Obligations	260,822	—	260,822	—
Compensated Absences	<u>207,432</u>	<u>3,940</u>	<u>211,372</u>	<u>80,928</u>
Total Noncurrent Liabilities	<u>2,696,776</u>	<u>3,130,094</u>	<u>5,826,870</u>	<u>2,117,478</u>
Total Liabilities	<u>3,740,651</u>	<u>3,816,289</u>	<u>7,556,940</u>	<u>2,510,579</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	6,771,494	2,775	6,774,269	1,425,723
Restricted for:				
Capital Projects	74,563	20,000	94,563	31,632
Debt Service	127,300	—	127,300	9,778
Program Administration	15,472	4,049	19,521	—
Permanent Funds:				
Nonexpendable	1,000	—	1,000	109,643
Expendable	886	—	886	—
Lending Activities	—	508,342	508,342	285,224
Insurance Activities	—	411,865	411,865	—
Economic Development and Tourism	31,153	—	31,153	—
Education	12,397	—	12,397	—
Wildlife Management and Conservation	14,851	—	14,851	—
Specific Fund/Component Unit Purposes	437,180	—	437,180	154,520
Unrestricted (Deficit)	<u>91,573</u>	<u>(2,017,602)</u>	<u>(1,926,029)</u>	<u>440,987</u>
Total Net Assets (Deficit)	<u>\$7,577,869</u>	<u>\$ (1,070,571)</u>	<u>\$ 6,507,298</u>	<u>\$2,457,507</u>

West Virginia

Statement of Activities For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Legislative	\$ 25,345	\$ 1,824	\$ 545	\$ —
Judicial	77,789	919	436	—
Executive	104,726	15,872	27,138	—
Administration	147,774	49,492	56,748	—
Commerce	235,749	41,885	32,749	—
Environmental Protection	125,216	54,877	44,255	—
Employment Programs	72,069	—	65,303	—
Education	2,669,307	4,465	369,428	233
Health and Human Resources	3,119,005	84,428	2,224,260	—
Military Affairs and Public Safety	417,606	5,317	60,756	10,127
Revenue	71,158	44,229	214	—
Transportation	780,950	97,064	—	447,727
Senior Services	30,115	—	11,594	—
Regulatory Boards and Commissions	33,082	26,789	4,376	—
Interest on Long-Term Debt	93,401	—	—	—
Total Governmental Activities	<u>8,003,292</u>	<u>427,161</u>	<u>2,897,802</u>	<u>458,087</u>
Business-type Activities:				
West Virginia Lottery	1,096,893	1,522,532	—	—
Water Pollution Control Revolving Fund	1,718	3,383	—	20,241
Workers' Compensation Fund	392,975	524,269	—	—
Unemployment Compensation	147,308	148,731	—	—
Public Employees' Insurance Agency	545,384	567,107	—	—
Board of Risk and Insurance Management	41,256	78,787	—	—
Other Activities	66,631	73,155	—	—
Total Business-type Activities	<u>2,292,165</u>	<u>2,917,964</u>	<u>—</u>	<u>20,241</u>
Total Primary Government	<u>\$10,295,457</u>	<u>\$3,345,125</u>	<u>\$2,897,802</u>	<u>\$478,328</u>
Component Units:				
Economic Development Authority	\$ 7,833	\$ 4,836	\$ —	\$ —
Housing Development Authority	107,210	57,143	55,352	—
Parkways, Economic Development, and Tourism Authority	76,633	69,177	—	—
Water Development Authority	13,662	16,334	—	—
Higher Education	1,284,115	503,102	325,809	76,743
Regional Jail Authority	77,693	80,895	—	—
Other Component Units	53,469	32,456	1,343	—
Total Component Units	<u>\$ 1,620,615</u>	<u>\$ 763,943</u>	<u>\$ 382,504</u>	<u>\$ 76,743</u>
General Revenues:				
Taxes:				
Personal Income				
Consumer Sales				
Business				
Medicaid				
Transportation				
Other				
Entitlements and Grants				
Unrestricted Investment Earnings				
Tobacco Settlement Revenue				
Payments from State of West Virginia				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets (Deficit), Beginning of Year, as Restated				
Net Assets (Deficit), End of Year				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business - type Activities	Total	Component Units
\$ (22,976)		\$ (22,976)	
(76,434)		(76,434)	
(61,716)		(61,716)	
(41,534)		(41,534)	
(161,115)		(161,115)	
(26,084)		(26,084)	
(6,766)		(6,766)	
(2,295,181)		(2,295,181)	
(810,317)		(810,317)	
(341,406)		(341,406)	
(26,715)		(26,715)	
(236,159)		(236,159)	
(18,521)		(18,521)	
(1,917)		(1,917)	
<u>(93,401)</u>		<u>(93,401)</u>	
<u>(4,220,242)</u>		<u>(4,220,242)</u>	
—	\$ 425,639	425,639	
—	21,906	21,906	
—	131,294	131,294	
—	1,423	1,423	
—	21,723	21,723	
—	37,531	37,531	
—	6,524	6,524	
—	<u>646,040</u>	<u>646,040</u>	
<u>(4,220,242)</u>	<u>646,040</u>	<u>(3,574,202)</u>	
—	—	—	\$ (2,997)
—	—	—	5,285
—	—	—	(7,456)
—	—	—	2,672
—	—	—	(378,461)
—	—	—	3,202
—	—	—	<u>(19,670)</u>
—	—	—	<u>(397,425)</u>
1,330,913	—	1,330,913	—
981,536	—	981,536	—
920,940	—	920,940	—
169,866	—	169,866	—
501,022	—	501,022	—
382,718	—	382,718	—
229	—	229	—
71,233	65,758	136,991	49,488
33,137	45,000	78,137	—
—	—	—	422,832
74,047	51,847	125,894	63,861
<u>438,733</u>	<u>(438,733)</u>	<u>—</u>	<u>—</u>
<u>4,904,374</u>	<u>(276,128)</u>	<u>4,628,246</u>	<u>536,181</u>
684,132	369,912	1,054,044	138,756
<u>6,893,737</u>	<u>(1,440,483)</u>	<u>5,453,254</u>	<u>2,318,751</u>
<u>\$ 7,577,869</u>	<u>\$(1,070,571)</u>	<u>\$ 6,507,298</u>	<u>\$2,457,507</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major Funds

General This fund is used as the State's operating fund. It accounts for the financial resources and transactions that are not accounted for in other funds. The revenues are from taxes and other general revenues.

Transportation The governmental fund types of the Department of Transportation (the Department) are included in this Fund. The Division of Highways has statutory responsibility for the construction, maintenance, and improvement of all state roads. Transportation expenditures funded by registration fees, license fees, and automobile privilege taxes (fees and taxes) are recorded in the State Road Fund within the Division of Highways. These fees and taxes, among other revenue sources, are collected by the Division of Motor Vehicles, which is also in the Department. The Department also includes the Division of Public Transit, which administers all federal and state programs that develop public transportation facilities, services, equipment, and methods; the West Virginia Aeronautics Commission, which has general supervision and controls commercial, state, and municipal airports; and the West Virginia Public Port Authority.

West Virginia Infrastructure and Jobs Development Council The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

Nonmajor governmental funds are presented, by fund type, beginning on page 168.

Balance Sheet
Governmental Funds
June 30, 2006
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>West Virginia Infrastructure and Jobs Development Council</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:					
Cash and Cash Equivalents	\$ 787,742	\$132,517	\$ 79,271	\$530,351	\$1,529,881
Investments	424,393	—	170,993	63,290	658,676
Receivables, Net	434,227	159,913	321,158	8,394	923,692
Due from Other Governments	226,004	—	—	1,182	227,186
Due from Other Funds	105,876	803	—	1,248	107,927
Due from Component Units	2,139	10	—	—	2,149
Advances to Component Units	121,934	—	—	—	121,934
Inventories	8,815	35,514	—	83	44,412
Other Assets	2,935	161	—	—	3,096
Restricted Assets:					
Cash and Cash Equivalents	—	—	—	1,687	1,687
Total Assets	<u>\$2,114,065</u>	<u>\$328,918</u>	<u>\$571,422</u>	<u>\$606,235</u>	<u>\$3,620,640</u>
Liabilities:					
Accounts Payable	\$ 119,167	\$ 60,608	\$ 8	\$ 22,308	\$ 202,091
Accrued and Other Liabilities	413,849	16,505	—	37,695	468,049
Deferred Revenue	34,475	355	—	—	34,830
Due to Other Governments	114,752	3,141	—	19,968	137,861
Due to Other Funds	7,284	1,827	—	560	9,671
Due to Component Units	<u>16,205</u>	<u>156</u>	<u>82</u>	<u>39</u>	<u>16,482</u>
Total Liabilities	<u>705,732</u>	<u>82,592</u>	<u>90</u>	<u>80,570</u>	<u>868,984</u>
Fund Balances:					
Reserved for:					
Inventories	8,815	35,514	—	83	44,412
Capital Projects	—	—	—	236,561	236,561
Debt Service	—	—	—	131,765	131,765
Program Administration	1,799	—	—	13,673	15,472
Specific Fund Purposes	193,259	—	—	—	193,259
Lending Activities	—	—	360,845	—	360,845
Permanent Funds	—	—	—	1,886	1,886
Loans Receivable	124,609	—	—	—	124,609
Unreserved, designated for:					
Revenue Shortfall Reserve	359,051	—	—	—	359,051
Income Tax Reserve Fund	36,619	—	—	—	36,619
Loans and Grants	—	—	128,405	—	128,405
Unreserved:					
Special Revenue Funds	—	210,812	82,082	141,697	434,591
Undesignated	<u>684,181</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>684,181</u>
Total Fund Balances	<u>1,408,333</u>	<u>246,326</u>	<u>571,332</u>	<u>525,665</u>	<u>2,751,656</u>
Total Liabilities and Fund Balances	<u>\$2,114,065</u>	<u>\$328,918</u>	<u>\$571,422</u>	<u>\$606,235</u>	<u>\$ 3,620,640</u>

The accompanying notes are an integral part of the financial statements.

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2006
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds		\$ 2,751,656
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets (excluding Internal Service Funds) consist of:		
Land	\$ 887,412	
Construction in Progress	1,241,679	
Infrastructure Assets	8,175,048	
Buildings, Equipment, and Other Depreciable Assets	1,071,698	
Accumulated Depreciation	<u>(3,820,528)</u>	
Total Capital Assets		7,555,309
Certain tax and other revenues are earned but not available and therefore are deferred in the funds.		39,673
Internal service funds are used by management to charge the costs of certain activities, such as building rental and information services, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.		108,755
Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.		5,806
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities (excluding Internal Service Funds) consist of:		
General Obligation Bonds	(772,912)	
Revenue Bonds	(726,249)	
Capital Leases	(345,386)	
Compensated Absences	(274,640)	
Net Pension Obligations	(255,837)	
Accrued Interest Payable and Other Liabilities	<u>(508,306)</u>	
Total Long-Term Liabilities		<u>(2,883,330)</u>
Net Assets of Governmental Activities		<u>\$ 7,577,869</u>

The accompanying notes are an integral part of the financial statements.

**Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental Funds	Total
Revenues:					
Taxes:					
Personal Income	\$1,329,796	\$ —	\$ —	\$ —	\$1,329,796
Consumer Sales	989,642	—	—	—	989,642
Severance	355,680	—	—	—	355,680
Corporate Net Income	380,287	—	—	—	380,287
Business and Occupation	184,364	—	—	—	184,364
Medicaid	169,866	—	—	—	169,866
Gasoline and Motor Carrier	—	330,538	—	—	330,538
Automobile Privilege	—	170,484	—	—	170,484
Other	373,003	3,708	—	4,000	380,711
Intergovernmental	2,479,223	447,727	—	110,482	3,037,432
Licenses, Permits, and Fees	86,657	4,290	—	103,734	194,681
Motor Vehicle Registration	—	92,681	—	—	92,681
Charges for Services	119,438	—	1,972	10	121,420
Food Stamp Revenue	265,344	—	—	—	265,344
Investment Earnings	46,113	4,701	9,012	41,910	101,736
Other	75,334	42,716	—	3,604	121,654
Total Revenues	6,854,747	1,096,845	10,984	263,740	8,226,316
Expenditures:					
Current:					
Legislative	22,732	—	—	2,590	25,322
Judicial	82,381	—	—	—	82,381
Executive	122,574	—	—	2	122,576
Administration	95,153	—	—	74	95,227
Commerce	228,085	—	15,007	—	243,092
Environmental Protection	5,211	—	—	104,618	109,829
Employment Programs	—	—	—	75,438	75,438
Education	2,607,747	—	—	82,712	2,690,459
Health and Human Resources	3,135,884	—	—	—	3,135,884
Military Affairs and Public Safety	385,579	—	—	4,330	389,909
Revenue	34,449	—	—	8,276	42,725
Transportation	6,569	525,279	—	—	531,848
Senior Services	30,118	—	—	—	30,118
Regulatory Boards and Commissions	10,816	—	—	22,529	33,345
Capital Outlay	—	521,365	—	29,050	550,415
Debt Service:					
Principal	—	19,920	—	54,507	74,427
Interest	—	23,098	—	66,690	89,788
Total Expenditures	6,767,298	1,089,662	15,007	450,816	8,322,783
Excess of Revenues Over (Under) Expenditures	87,449	7,183	(4,023)	(187,076)	(96,467)
Other Financing Sources (Uses):					
Face Value of Long-Term Refunding Debt Issued	—	—	—	54,800	54,800
Premiums on Bonds Issued	—	—	—	697	697
Capital Lease Acquisition	2,757	—	—	10,602	13,359
Payments to Refunded Bond Escrow Agent	—	—	—	(56,062)	(56,062)
Transfers In	607,077	14,904	54,000	199,222	875,203
Transfers Out	(166,881)	(6,772)	(7,508)	(276,029)	(457,190)
Total Other Financing Sources (Uses)	442,953	8,132	46,492	(66,770)	430,807
Net Change in Fund Balances	530,402	15,315	42,469	(253,846)	334,340
Fund Balances, Beginning of Year, as Restated	877,931	231,011	528,863	779,511	2,417,316
Fund Balances, End of Year	\$1,408,333	\$ 246,326	\$571,332	\$ 525,665	\$2,751,656

The accompanying notes are an integral part of the financial statements.

West Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		\$334,340
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	\$ 567,713	
Depreciation Expense	<u>(283,834)</u>	
Excess of Capital Outlay Over Depreciation Expense		283,879
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		(13,359)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds issued, including a premium of \$697		
Total Bond Proceeds		(55,497)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. For the current year these amounts consist of:		
Bond Principal Retirement	117,499	
Capital Lease Payments	<u>11,845</u>	
Total Long-Term Debt Repayment		129,344
Internal service funds are used by management to charge the costs of certain activities, such as building and vehicle maintenance and leasing, data processing, and investment and management of State moneys, to individual funds. The net increase in net assets of the internal service funds is reported with governmental activities.		18,863
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unearned revenues decreased by this amount this year.		(17,968)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Accrued Interest	(72)	
Increase of Compensated Absences	(2,406)	
Increase of Accrued and Other Liabilities	(11,831)	
Decrease of Net Pension Obligation	18,081	
Amortization of Bond Premiums/Discounts and Issuance Costs	<u>758</u>	
Total Change in Expenditures		<u>4,530</u>
Change in Net Assets of Governmental Activities		<u>\$684,132</u>

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Major Funds

West Virginia Lottery The West Virginia Lottery's responsibilities include the distribution and sale of lottery tickets and the awarding of prizes. The West Virginia Lottery accounts for lottery ticket revenues, administrative and operating expenses, and distribution of net revenue to the General Fund.

Water Pollution Control Revolving Fund (Water Pollution) Low interest loans are made to communities that need to upgrade an existing waste water system, establishing a new utility or cleaning up the State's water supply. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

Workers' Compensation Fund On December 31, 2005, the Workers' Compensation Commission (WCC) ceased to exist as a state entity. The WCC's regulatory powers transferred to the Offices of the Insurance Commissioner along with the residual assets and liabilities of the former WCC. Disbursements from the State's workers' compensation fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

Unemployment Compensation The Fund is administered by the Bureau of Employment Programs doing business as WORKFORCE West Virginia. The Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers under provisions of the Federal Unemployment Tax Act.

Public Employees' Insurance Agency The Agency, a public entity risk pool, is responsible for providing health and life insurance to current and retired state and county employees. The Agency, empowered to set the premium rates charged to its participants, utilizes a third-party administrator to process claims and make payments to doctors and hospitals on a cost reimbursement basis.

Board of Risk and Insurance Management The Board, a public entity risk pool, is responsible for the self-insurance of all State buildings, automobiles, and legal and civil actions, as well as insuring various county and local governments and charitable organizations. The Board is funded from the premiums assessed to the organizations it insures.

Nonmajor proprietary funds are presented beginning on page 188.

West Virginia

Statement of Net Assets Proprietary Funds June 30, 2006 (Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Unemployment Compensation
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$177,719	\$ 80,505	\$ 938,525	\$244,923
Investments	—	—	—	—
Receivables, Net	24,789	19,647	53,787	35,372
Due from Other Governments	—	58	—	1,080
Due from Other Funds	1	24	285	295
Due from Component Units	—	—	—	126
Inventories	588	—	—	—
Other Assets	1,455	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	57	—	—	—
Other Restricted Assets	—	—	—	—
Total Current Assets	<u>204,609</u>	<u>100,234</u>	<u>992,597</u>	<u>281,796</u>
Noncurrent Assets:				
Investments	—	—	—	—
Receivables, Net	—	357,780	200,000	—
Restricted Assets:				
Cash and Cash Equivalents	20,000	—	—	—
Investments	612	—	—	—
Receivables, Net	—	—	—	—
Capital Assets, Net	673	—	—	—
Total Noncurrent Assets	<u>21,285</u>	<u>357,780</u>	<u>200,000</u>	<u>—</u>
Total Assets	<u>225,894</u>	<u>458,014</u>	<u>1,192,597</u>	<u>281,796</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	18,417	10	—	—
Accrued Tuition Contract Benefits	—	—	—	—
Accrued and Other Liabilities	37,830	—	255	1,055
Deferred Revenue	—	—	—	—
Due to Other Governments	—	—	—	3,123
Due to Other Funds	147,854	16	133	—
Due to Component Units	142	19	49	—
Insurance and Compensation Benefits Obligations	—	—	398,305	15,583
Liabilities Payable from Restricted Assets	336	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	—	—	539	—
Total Current Liabilities	<u>204,579</u>	<u>45</u>	<u>399,281</u>	<u>19,761</u>
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	—	—	—
Insurance and Compensation Benefits Obligations	—	—	2,894,095	—
Liabilities Payable from Restricted Assets	316	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	749	363	978	—
Total Noncurrent Liabilities	<u>1,065</u>	<u>363</u>	<u>2,895,073</u>	<u>—</u>
Total Liabilities	<u>205,644</u>	<u>408</u>	<u>3,294,354</u>	<u>19,761</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	673	—	—	—
Restricted for:				
Capital Projects	20,000	—	—	—
Program Administration	—	—	—	—
Lending Activities	—	457,606	—	—
Insurance Activities	—	—	123,553	262,035
Unrestricted (Deficit)	(423)	—	(2,225,310)	—
Total Net Assets (Deficit)	<u>\$ 20,250</u>	<u>\$457,606</u>	<u>\$(2,101,757)</u>	<u>\$262,035</u>

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities- Internal Service Funds
\$109,463	\$ 33,962	\$ 28,468	\$ 1,613,565	\$ 12,364
154,630	—	—	154,630	—
26,080	714	3,473	163,862	4,499
64	—	—	1,202	—
3,575	—	23	4,203	5,369
279	—	—	405	503
—	—	37	625	348
—	—	—	1,455	149
—	7,794	—	7,794	235
—	—	—	57	—
—	<u>84,304</u>	—	<u>84,304</u>	—
<u>294,091</u>	<u>126,774</u>	<u>32,001</u>	<u>2,032,102</u>	<u>23,467</u>
—	84,322	93,627	177,949	—
—	—	40,565	598,345	—
—	—	—	20,000	37,350
—	21,143	—	21,755	—
—	372	—	372	—
<u>209</u>	—	<u>1,893</u>	<u>2,775</u>	<u>70,576</u>
<u>209</u>	<u>105,837</u>	<u>136,085</u>	<u>821,196</u>	<u>107,926</u>
<u>294,300</u>	<u>232,611</u>	<u>168,086</u>	<u>2,853,298</u>	<u>131,393</u>
2,821	1,993	2,409	25,650	9,589
—	—	7,829	7,829	—
707	625	61	40,533	202
6,601	10,892	—	17,493	—
—	—	—	3,123	69
28,578	9	32	176,622	159
201	12	—	423	201
60,122	46,765	420	521,195	—
—	—	—	336	—
—	—	—	—	3,356
—	—	<u>32</u>	<u>571</u>	—
<u>99,030</u>	<u>60,296</u>	<u>10,783</u>	<u>793,775</u>	<u>13,576</u>
—	—	100,492	100,492	—
—	127,308	—	3,021,403	—
3,943	—	—	4,259	—
—	—	—	—	5,258
<u>461</u>	<u>163</u>	<u>1,226</u>	<u>3,940</u>	<u>3,804</u>
<u>4,404</u>	<u>127,471</u>	<u>101,718</u>	<u>3,130,094</u>	<u>9,062</u>
<u>103,434</u>	<u>187,767</u>	<u>112,501</u>	<u>3,923,869</u>	<u>22,638</u>
209	—	1,893	2,775	61,962
—	—	—	20,000	37,350
—	—	4,049	4,049	—
—	—	50,736	508,342	—
—	26,277	—	411,865	—
<u>190,657</u>	<u>18,567</u>	<u>(1,093)</u>	<u>(2,017,602)</u>	<u>9,443</u>
<u>\$190,866</u>	<u>\$ 44,844</u>	<u>\$ 55,585</u>	<u>\$(1,070,571)</u>	<u>\$108,755</u>

West Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>West Virginia Lottery</u>	<u>Water Pollution Control Revolving Fund</u>	<u>Workers' Compensation Fund</u>	<u>Unemployment Compensation</u>
Operating Revenues:				
Charges for Services and Sales	\$ —	\$ —	\$ —	\$148,751
Lottery Games	1,522,514	—	—	—
Insurance Premiums	—	—	524,224	—
Tuition Contracts	—	—	—	—
Investment Earnings	—	1,954	—	—
Licenses, Permits, and Fees	—	1,429	—	—
Other	<u>11,193</u>	<u>—</u>	<u>65,780</u>	<u>4,845</u>
Total Operating Revenues	<u>1,533,707</u>	<u>3,383</u>	<u>590,004</u>	<u>153,596</u>
Operating Expenses:				
Cost of Sales and Services	720,806	—	—	—
Lottery Prizes	131,903	—	—	—
Insurance Claims	—	—	191,823	—
Tuition Contract Benefits and Expenses	—	—	—	—
General and Administration	13,545	1,718	109,902	—
Depreciation and Amortization	1,351	—	463	—
Other	<u>14,341</u>	<u>—</u>	<u>—</u>	<u>147,308</u>
Total Operating Expenses	<u>881,946</u>	<u>1,718</u>	<u>302,188</u>	<u>147,308</u>
Operating Income (Loss)	651,761	1,665	287,816	6,288
Nonoperating Revenues (Expenses):				
Entitlements and Grants	—	—	—	—
Gain on Sale of Equipment	—	—	—	—
Interest and Other Investment Income	5,240	3,033	23,097	10,534
Interest Expense	(87)	—	—	—
Other Nonoperating Revenues	—	—	—	—
Other Nonoperating Expenses	(214,873)	—	—	—
BrickStreet Transactions, Net (See Note 14)	<u>—</u>	<u>—</u>	<u>(91,076)</u>	<u>—</u>
Total Nonoperating Revenues (Expenses)	<u>(209,720)</u>	<u>3,033</u>	<u>(67,979)</u>	<u>10,534</u>
Income Before Contributions and Transfers	442,041	4,698	219,837	16,822
Contributions and Transfers:				
Capital Grants and Contributions	—	20,241	—	—
Transfers In	—	3,368	18,062	—
Transfers Out	(422,041)	—	(1,219)	(5,768)
Transfer of Capital Assets	<u>—</u>	<u>—</u>	<u>(7,036)</u>	<u>—</u>
Total Contributions and Transfers	<u>(422,041)</u>	<u>23,609</u>	<u>9,807</u>	<u>(5,768)</u>
Change in Net Assets	20,000	28,307	229,644	11,054
Net Assets (Deficit), Beginning of Year	<u>250</u>	<u>429,299</u>	<u>(2,331,401)</u>	<u>250,981</u>
Net Assets (Deficit), End of Year	<u>\$ 20,250</u>	<u>\$457,606</u>	<u>\$(2,101,757)</u>	<u>\$262,035</u>

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance <u>Agency</u>	Board of Risk and Insurance <u>Management</u>	Other Enterprise <u>Funds</u>	<u>Total</u>	Governmental Activities - Internal Service <u>Funds</u>
\$ —	\$ —	\$ 69,558	\$ 218,309	\$ 72,666
—	—	—	1,522,514	—
568,008	78,679	—	1,170,911	—
—	—	397	397	—
—	—	—	1,954	—
—	—	3,200	4,629	—
<u>6,059</u>	<u>—</u>	<u>879</u>	<u>88,756</u>	<u>—</u>
<u>574,067</u>	<u>78,679</u>	<u>74,034</u>	<u>3,007,470</u>	<u>72,666</u>
—	—	52,519	773,325	61,651
—	—	—	131,903	—
519,394	37,076	734	749,027	—
—	—	7,342	7,342	—
15,718	4,180	6,313	151,376	6,505
20	—	125	1,959	4,667
<u>10,298</u>	<u>—</u>	<u>—</u>	<u>171,947</u>	<u>—</u>
<u>545,430</u>	<u>41,256</u>	<u>67,033</u>	<u>1,986,879</u>	<u>72,823</u>
28,637	37,423	7,001	1,020,591	(157)
—	—	—	—	229
—	—	—	—	95
8,348	6,894	8,612	65,758	701
—	—	—	(87)	(391)
8,091	—	—	8,091	4,702
—	—	—	(214,873)	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>(91,076)</u>	<u>—</u>
<u>16,439</u>	<u>6,894</u>	<u>8,612</u>	<u>(232,187)</u>	<u>5,336</u>
45,076	44,317	15,613	788,404	5,179
—	—	—	20,241	—
4,887	—	10,203	36,520	15,114
(27,680)	—	(11,509)	(468,217)	(1,430)
<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,036)</u>	<u>—</u>
<u>(22,793)</u>	<u>—</u>	<u>(1,306)</u>	<u>(418,492)</u>	<u>13,684</u>
22,283	44,317	14,307	369,912	18,863
<u>168,583</u>	<u>527</u>	<u>41,278</u>	<u>(1,440,483)</u>	<u>89,892</u>
<u>\$190,866</u>	<u>\$44,844</u>	<u>\$ 55,585</u>	<u>\$(1,070,571)</u>	<u>\$108,755</u>

**Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Unemployment Compensation
Cash Flows from Operating Activities:				
Receipts from Customers	\$1,535,862	\$ 20,988	\$ 535,199	\$ 144,443
Payments to Suppliers	(14,440)	—	(30,118)	—
Payments to Employees	(5,705)	(1,251)	(47,343)	—
Payments to Beneficiaries	—	—	—	—
Payments for Loans Originated	—	(37,880)	—	—
Payments to Claimants	—	—	(412,803)	(147,733)
Other Operating Cash Receipts	—	—	—	10,236
Other Operating Cash Payments	<u>(863,909)</u>	<u>(439)</u>	<u>—</u>	<u>—</u>
Net Cash Provided by (Used for) Operating Activities	<u>651,808</u>	<u>(18,582)</u>	<u>44,935</u>	<u>6,946</u>
Cash Flows from Noncapital Financing Activities:				
Repayment of Operating Debt	(87)	—	—	—
Transfers In	—	—	17,842	—
Transfers Out	(551,101)	—	—	(5,768)
Distributions or Subsidies to Other Organizations	(22,877)	—	(230,211)	—
Other Nonoperating Revenues	—	—	—	—
Entitlements and Grants	<u>—</u>	<u>23,636</u>	<u>—</u>	<u>—</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(574,065)</u>	<u>23,636</u>	<u>(212,369)</u>	<u>(5,768)</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Sale of Capital Bonds and Other Debts	—	—	—	—
Repayment of Capital Debt	—	—	—	—
Interest Paid on Capital Debt	—	—	—	—
Acquisition and Construction of Capital Assets	<u>—</u>	<u>—</u>	<u>(3,265)</u>	<u>—</u>
Net Cash Used for Capital and Related Financing Activities	<u>—</u>	<u>—</u>	<u>(3,265)</u>	<u>—</u>
Cash Flows from Investing Activities:				
Purchase of Investments	—	—	(200,000)	—
Proceeds from Sale of Investments	1,026	—	—	—
Investment Earnings	<u>5,208</u>	<u>3,033</u>	<u>23,097</u>	<u>10,534</u>
Net Cash Provided by (Used for) Investing Activities	<u>6,234</u>	<u>3,033</u>	<u>(176,903)</u>	<u>10,534</u>
Net Increase (Decrease) in Cash and Cash Equivalents	83,977	8,087	(347,602)	11,712
Cash and Cash Equivalents, Beginning of Year	<u>113,742</u>	<u>72,418</u>	<u>1,286,127</u>	<u>233,211</u>
Cash and Cash Equivalents, End of Year	<u>\$ 197,719</u>	<u>\$ 80,505</u>	<u>\$ 938,525</u>	<u>\$ 244,923</u>

The accompanying notes are an integral part of the financial statements.

Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
\$ 569,626	\$ 78,091	\$ 76,392	\$2,960,601	\$ 75,454
(18,901)	(3,260)	(53,852)	(120,571)	(53,927)
(2,076)	(1,218)	(5,023)	(62,616)	(19,877)
(535,723)	(48,072)	(5,010)	(588,805)	—
—	—	(8,818)	(46,698)	—
—	—	—	(560,536)	—
11,053	—	710	21,999	—
<u>—</u>	<u>(42,431)</u>	<u>—</u>	<u>(906,779)</u>	<u>—</u>
<u>23,979</u>	<u>(16,890)</u>	<u>4,399</u>	<u>696,595</u>	<u>1,650</u>
—	—	—	(87)	—
4,887	—	10,205	32,934	15,114
—	—	(11,509)	(568,378)	(1,430)
—	—	—	(253,088)	—
3,669	—	—	3,669	4,593
<u>—</u>	<u>—</u>	<u>—</u>	<u>23,636</u>	<u>229</u>
<u>8,556</u>	<u>—</u>	<u>(1,304)</u>	<u>(761,314)</u>	<u>18,506</u>
—	—	—	—	2,533
—	—	—	—	(4,475)
—	—	—	—	(396)
<u>(73)</u>	<u>—</u>	<u>(70)</u>	<u>(3,408)</u>	<u>(18,179)</u>
<u>(73)</u>	<u>—</u>	<u>(70)</u>	<u>(3,408)</u>	<u>(20,517)</u>
(154,630)	(25,579)	(791)	(381,000)	(400)
—	23,770	3,600	28,396	400
<u>8,348</u>	<u>5,078</u>	<u>1,483</u>	<u>56,781</u>	<u>695</u>
<u>(146,282)</u>	<u>3,269</u>	<u>4,292</u>	<u>(295,823)</u>	<u>695</u>
(113,820)	(13,621)	7,317	(363,950)	334
<u>223,283</u>	<u>55,377</u>	<u>21,151</u>	<u>2,005,309</u>	<u>49,615</u>
<u>\$ 109,463</u>	<u>\$ 41,756</u>	<u>\$ 28,468</u>	<u>\$1,641,359</u>	<u>\$ 49,949</u>

(Continued)

West Virginia

Statement of Cash Flows Proprietary Funds For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands) (Continued)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Unemployment Compensation
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	\$651,761	\$1,665	\$ 287,816	\$6,288
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	1,351	—	463	—
Changes in Assets and Liabilities:				
Receivables	2,155	(20,237)	165,451	2,097
Inventories	(117)	—	—	—
Other Assets	(606)	—	—	—
Accounts Payable and Accrued Liabilities	(3,815)	31	(170,730)	(657)
Accrued Tuition Contract Benefits and Expenses	—	—	—	—
Deferred Revenue	—	—	—	—
Escrow Deposits	—	—	—	—
Due to/from Other Funds	—	(41)	—	(782)
Unpaid Claims Liabilities	—	—	—	—
Other Liabilities	1,079	—	(238,065)	—
Compensated Absences	—	—	—	—
Net Cash Provided by (Used for) Operating Activities	<u>\$651,808</u>	<u>\$(18,582)</u>	<u>\$ 44,935</u>	<u>\$6,946</u>
Schedule of Noncash Capital and Financing Activities:				
Distribution of Capital Assets	\$ —	\$ —	\$ (8,035)	\$ —
Unrealized Gain on Investments	—	—	—	—

The accompanying notes are an integral part of the financial statements.

<u>Public Employees' Insurance Agency</u>	<u>Board of Risk and Insurance Management</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities- Internal Service Funds</u>
\$28,637	\$37,423	\$ 7,001	\$1,020,591	\$ (157)
20	—	125	1,959	4,667
(1,789)	(495)	(5,771)	141,411	2,788
—	—	(15)	(132)	136
—	—	26	(580)	(54)
(6,380)	—	268	(181,283)	(5,667)
—	—	2,333	2,333	—
3,581	(99)	—	3,482	—
—	(42,429)	—	(42,429)	—
(215)	—	—	(1,038)	—
—	(10,996)	—	(10,996)	—
125	(294)	420	(236,735)	(63)
—	—	12	12	—
<u>\$23,979</u>	<u>\$(16,890)</u>	<u>\$ 4,399</u>	<u>\$ 696,595</u>	<u>\$1,650</u>
\$ —	\$ —	\$ —	\$ (8,035)	\$ —
—	1,816	7,130	8,946	—

FIDUCIARY FUND

FINANCIAL STATEMENTS

Private Purpose Trust Fund This fund type is used to report a trust arrangement under which principal and income benefit individuals.

SMART 529 The West Virginia College Savings Program (the Program) operates under the West Virginia State Code Chapter 18, Article 30, and is administered by the Office of the State Treasurer under the direction of the Program's Board. All funds paid into or invested through the Program will be available for use at any two-year or four-year college or university in the country, with refund and transfer options available. Since the Program is an Internal Revenue Service Section 529 Qualified State Tuition Program, earnings on the funds are federally tax deferred until used for college.

The individual Pension Trust, Investment Trust, and Agency Fund descriptions and financial statements begin on page 193.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:				
Cash and Cash Equivalents	\$ 4,449	\$214,536	\$ —	\$55,659
Investments:				
Equity Pooled Investments	6,421,534	—	—	—
Mutual Funds	736,012	—	764,222	—
Receivables, Net:				
Contributions Receivable	29,526	—	5,861	—
Participant Loans Receivable	10,013	—	—	—
Accrued Interest Receivable	—	—	—	92
Accounts Receivable	—	—	—	5,000
Due from Other Funds	69,049	—	—	—
Due from Component Units	<u>364</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Assets	<u>7,270,947</u>	<u>214,536</u>	<u>770,083</u>	<u>\$60,751</u>
Liabilities:				
Accounts Payable	—	—	5,285	\$ 1,124
Accrued and Other Liabilities	533	—	572	—
Due to Other Governments	—	—	—	6,679
Due to Other Funds	96	—	—	—
Agency Liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,948</u>
Total Liabilities	<u>629</u>	<u>—</u>	<u>5,857</u>	<u>\$60,751</u>
Net Assets:				
Held in Trust for:				
Pension Benefits, External Investment Pool Participants, Individuals, and Organizations	<u>7,270,318</u>	<u>214,536</u>	<u>764,226</u>	
Total Net Assets	<u>\$7,270,318</u>	<u>\$214,536</u>	<u>\$764,226</u>	

The accompanying notes are an integral part of the financial statements.

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund
Additions:			
Contributions:			
Members	\$ 135,310	\$ —	\$ —
Employer	558,876	—	—
Account Holder	—	—	213,128
Deposits, Pool Participants	—	565,708	—
Other	<u>438,156</u>	<u>—</u>	<u>—</u>
Total Contributions	<u>1,132,342</u>	<u>565,708</u>	<u>213,128</u>
Investment Income:			
Net Appreciation in Fair Value of Investments	559,713	8,563	28,959
Interest	51,269	—	38,907
Investment Expense	<u>(44,969)</u>	<u>—</u>	<u>(3,748)</u>
Net Investment Income	<u>566,013</u>	<u>8,563</u>	<u>64,118</u>
Other	<u>4,968</u>	<u>—</u>	<u>—</u>
Total Additions	<u>1,703,323</u>	<u>574,271</u>	<u>277,246</u>
Deductions:			
Benefits Expense	602,942	—	—
Payments in Accordance with Trust Agreements	—	—	63,998
Refunds of Contributions	31,057	—	—
Withdrawals	—	549,071	—
Administrative Expenses	<u>7,097</u>	<u>—</u>	<u>2,196</u>
Total Deductions	<u>641,096</u>	<u>549,071</u>	<u>66,194</u>
Change in Net Assets Held in Trust for:			
Pension Benefits	1,062,227	—	—
External Investment Pool Participants	—	25,200	—
Individuals and Organizations	—	—	211,052
Net Assets, Beginning of Year	<u>6,208,091</u>	<u>189,336</u>	<u>553,174</u>
Net Assets, End of Year	<u>\$7,270,318</u>	<u>\$214,536</u>	<u>\$764,226</u>

The accompanying notes are an integral part of the financial statements.



DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Economic Development Authority The Authority, responsible for developing and advancing the business prosperity and economic welfare of the State, is authorized to make loans and enter into direct financing and operating leases with industrial development agencies for the promotion and retention of new and existing commercial and industrial development. The Authority is empowered to borrow money and issue bonds, notes, commercial paper, and other debt instruments to furnish money for the enhancement of business development projects, and additionally maintains the discretionary ability to set loan terms and interest rates.

Housing Development Fund The Fund is responsible for providing residential housing programs for low and moderate income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. The Fund is empowered to issue bonds payable from mortgage payments and to issue general obligation bonds payable from other assets. The bonds of the Housing Development Fund do not constitute debt of the State.

Parkways, Economic Development, and Tourism Authority The Authority is responsible for operation and maintenance of the State turnpike and economic development and tourism projects approved by the Department of Transportation. The Authority is empowered to issue Parkway revenue refunding bonds and set rates for crossing the turnpike. The State has discretionary authority to reappropriate any surplus from the Authority.

Water Development Authority The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest

financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects.

West Virginia Higher Education Fund The Fund is responsible for providing the delivery of postsecondary education, which is competitive, affordable, and has the capacity to deliver the programs and services necessary to meet the regional and statewide needs of young people and working-age adults. The focus and collaboration of the Institutions within the Fund is to create a system of higher education that is equipped to increase the competitiveness and to diversify and to expand the State's workforce by increasing the number of college degrees produced. The Fund obtains revenues from state and federal student aid programs; tuition and fees; state and federal appropriations; sales and services of educational activities and auxiliary enterprises; federal, state, local, and nongovernmental grants and contracts; and gifts and contributions.

Regional Jail and Correctional Facility Authority The Authority is responsible for replacing individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

Nonmajor component units are presented beginning on page 205.

West Virginia

Combining Statement of Net Assets Discretely Presented Component Units June 30, 2006 (Expressed in Thousands)

	Economic Development Authority	Housing Development Fund	Parkways, Economic Development and Tourism Authority	Water Development Authority
Assets:				
Current Assets:				
Cash and Cash Equivalents	\$ 46,096	\$ 31,910	\$ 1,293	\$ 12,264
Investments	1,628	—	—	—
Receivables, Net	21,664	5,522	1,695	8,935
Due from Primary Government	—	—	—	101
Inventories	—	—	2,352	—
Other Assets	40	521	2,463	—
Restricted Assets:				
Cash and Cash Equivalents	12,017	48,466	—	—
Investments	—	—	16,935	—
Other Restricted Assets	—	—	—	—
Total Current Assets	<u>81,445</u>	<u>86,419</u>	<u>24,738</u>	<u>21,300</u>
Noncurrent Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	—	8,405	—	1,200
Receivables, Net	134,666	33,028	—	7,610
Other Assets	—	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	282	61,084	6,031	2,105
Investments	—	137,365	20,662	15,626
Receivables, Net	—	819,842	—	249,980
Other Restricted Assets	—	3,810	—	—
Capital Assets, Net	<u>34,095</u>	<u>331</u>	<u>531,202</u>	<u>774</u>
Total Noncurrent Assets	<u>169,043</u>	<u>1,063,865</u>	<u>557,895</u>	<u>277,295</u>
Total Assets	<u>250,488</u>	<u>1,150,284</u>	<u>582,633</u>	<u>298,595</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	3	—	868	2
Interest Payable	—	6,050	777	2,706
Accrued and Other Liabilities	262	18,947	5,714	—
Deferred Revenue	—	—	—	—
Due to Primary Government	44	62	459	2
Revenue Bonds Payable	—	58,795	3,239	5,786
Capital Leases	517	—	500	—
Compensated Absences	<u>93</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Current Liabilities	<u>919</u>	<u>83,854</u>	<u>11,557</u>	<u>8,496</u>
Noncurrent Liabilities:				
Deferred Revenue	4,052	—	—	—
Advances from Primary Government	121,934	—	—	—
Liabilities Payable from Restricted Assets	—	54,995	—	—
Accrued and Other Liabilities	1,999	—	—	—
Revenue Bonds Payable	—	675,395	96,448	242,001
Capital Leases	6,701	—	1,445	—
Compensated Absences	<u>32</u>	<u>3,062</u>	<u>2,959</u>	<u>349</u>
Total Noncurrent Liabilities	<u>134,718</u>	<u>733,452</u>	<u>100,852</u>	<u>242,350</u>
Total Liabilities	<u>135,637</u>	<u>817,306</u>	<u>112,409</u>	<u>250,846</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	3,393	—	429,570	774
Restricted for:				
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Nonexpendable	—	—	—	—
Lending Activities	—	259,514	—	25,710
Loans Receivable	11,711	—	—	—
Specific Component Unit Purposes	—	—	34,138	—
Unrestricted	<u>99,747</u>	<u>73,464</u>	<u>6,516</u>	<u>21,265</u>
Total Net Assets	<u>\$114,851</u>	<u>\$ 332,978</u>	<u>\$470,224</u>	<u>\$ 47,749</u>

The accompanying notes are an integral part of the financial statements.

Higher Education	Regional Jail Authority	Other Component Units	Total
\$ 320,772	\$ 20,805	\$ 46,487	\$ 479,627
3,588	2,628	8,605	16,449
69,947	21,123	3,116	132,002
16,015	—	990	17,106
5,072	707	77	8,208
5,155	—	909	9,088
—	—	5,954	66,437
—	—	—	16,935
—	—	139	139
<u>420,549</u>	<u>45,263</u>	<u>66,277</u>	<u>745,991</u>
45,816	—	—	45,816
376,510	—	—	386,115
47,350	—	—	222,654
33,046	—	—	33,046
—	268	—	69,770
—	—	—	173,653
—	—	—	1,069,822
—	—	1,673	5,483
<u>1,456,073</u>	<u>149,121</u>	<u>44,140</u>	<u>2,215,736</u>
<u>1,958,795</u>	<u>149,389</u>	<u>45,813</u>	<u>4,222,095</u>
<u>2,379,344</u>	<u>194,652</u>	<u>112,090</u>	<u>4,968,086</u>
56,379	1,650	2,199	61,101
19,350	—	—	28,883
86,812	1,120	361	113,216
50,401	—	170	50,571
2,144	641	69	3,421
21,325	4,130	—	93,275
6,129	—	428	7,574
<u>31,929</u>	<u>2,664</u>	<u>374</u>	<u>35,060</u>
<u>274,469</u>	<u>10,205</u>	<u>3,601</u>	<u>393,101</u>
—	—	—	4,052
—	—	—	121,934
—	—	2,515	57,510
—	—	404	2,403
701,023	85,980	—	1,800,847
21,203	—	20,455	49,804
<u>71,539</u>	<u>1,004</u>	<u>1,983</u>	<u>80,928</u>
<u>793,765</u>	<u>86,984</u>	<u>25,357</u>	<u>2,117,478</u>
<u>1,068,234</u>	<u>97,189</u>	<u>28,958</u>	<u>2,510,579</u>
889,672	59,011	43,303	1,425,723
30,251	1,381	—	31,632
8,505	1,273	—	9,778
109,643	—	—	109,643
—	—	—	285,224
—	—	—	11,711
104,192	—	4,479	142,809
<u>168,847</u>	<u>35,798</u>	<u>35,350</u>	<u>440,987</u>
<u>\$1,311,110</u>	<u>\$ 97,463</u>	<u>\$ 83,132</u>	<u>\$2,457,507</u>

**Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	<u>Program Revenues</u>				Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Component Units:					
Economic Development Authority	\$ 7,833	\$ 4,836	\$ —	\$ —	\$ (2,997)
Housing Development Fund	107,210	57,143	55,352	—	5,285
Parkways, Economic Development, and Tourism Authority	76,633	69,177	—	—	(7,456)
Water Development Authority	13,662	16,334	—	—	2,672
Higher Education	1,284,115	503,102	325,809	76,743	(378,461)
Regional Jail Authority	77,693	80,895	—	—	3,202
Other Component Units	<u>53,469</u>	<u>32,456</u>	<u>1,343</u>	<u>—</u>	<u>(19,670)</u>
Total Component Units	<u>\$1,620,615</u>	<u>\$763,943</u>	<u>\$382,504</u>	<u>\$76,743</u>	<u>\$(397,425)</u>

The accompanying notes are an integral part of the financial statements.

General Revenue

Unrestricted Investment Earnings	Miscellaneous	Payments from the State of West Virginia	Total General Revenue	Change in Net Assets	Net Assets, Beginning of Year	Net Assets, End of Year
\$ 7,004	\$ 1,013	\$ —	\$ 8,017	\$ 5,020	\$ 109,831	\$ 114,851
4,103	—	—	4,103	9,388	323,590	332,978
1,445	—	—	1,445	(6,011)	476,235	470,224
1,590	—	—	1,590	4,262	43,487	47,749
32,463	58,528	401,829	492,820	114,359	1,196,751	1,311,110
1,597	2,897	—	4,494	7,696	89,767	97,463
<u>1,286</u>	<u>1,423</u>	<u>21,003</u>	<u>23,712</u>	<u>4,042</u>	<u>79,090</u>	<u>83,132</u>
<u>\$49,488</u>	<u>\$63,861</u>	<u>\$422,832</u>	<u>\$536,181</u>	<u>\$138,756</u>	<u>\$2,318,751</u>	<u>\$2,457,507</u>

**STATE OF WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The State of West Virginia is governed by elected officials. In accordance with GASB Statement No. 14, "The Financial Reporting Entity," these financial statements present the State (the primary government) and its component units. The component units discussed below are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Individual Component Unit Disclosures

United States generally accepted accounting principles (GAAP) define component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. GAAP specifies two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions or discrete presentation of the component units' financial data in columns separate from the State's financial data.

Blended Component Units

The entities below are legally separate from the State and meet the GAAP criteria for component units. These entities are blended with the primary government because they provide services entirely or almost entirely to the State.

Armory Board

The State Armory Board is governed by the Governor, the State Auditor, and the Secretary of State. Its activities are blended in the nonmajor special revenue funds of the State. The State Armory Board serves the State by providing facilities for the activities of the regiment of the National Guard.

Transportation

The Division of Highways, within the Department of Transportation, is governed by a commissioner appointed by the Governor; it does not have a governing board separate from the State Legislature. It is a legally separate entity defined by the State Constitution. Since its operations are to improve the State's roads, Transportation is blended in the special revenue and capital projects funds of the State.

School Building Authority

The School Building Authority is governed by an eleven-member board. The Governor or his designee serves as chair. The remaining ten members are the State Superintendent of Schools, three members of the State Board of Education and six citizens appointed by the Governor. The School Building Authority is blended in the nonmajor special revenue, debt service, and capital projects funds of the State since it exists to facilitate the State's responsibility for funding education. Its activities are designed to provide a financing vehicle for the acquisition, construction and maintenance of school facilities to meet the educational needs of the State.

West Virginia Investment Management Board

The West Virginia Investment Management Board (IMB) is governed by a thirteen-member Board of Trustees. The IMB was created as a public corporation by West Virginia Code §12-6-1 to serve as the administrator, investor, and manager of the State's pension, Workers' Compensation, Pneumoconiosis, and other State funds. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other members are appointed by the Governor. Because there is a financial benefit-burden relationship between the State and the IMB, and assets of the State and its component units comprise over 90% of the assets managed by the IMB, it is blended in the internal service funds of the State.

West Virginia Board of Treasury Investments

The West Virginia Board of Treasury Investments (BTI) is governed by a five-member board. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other two members are appointed by the Governor. The BTI was created as a public corporation by West Virginia Code §12-6C-4, effective July 8, 2005, to provide prudent fiscal administration, investment and management for the Consolidated Fund and is blended in the internal service funds of the State.

West Virginia Lottery

The West Virginia Lottery is governed by a seven-member board appointed by the Governor. It was formed to assist the State in funding education and other basic governmental activities. This is accomplished by transferring the net profits of the games conducted by the Lottery to other accounts for uses including, but not limited to, debt service, education and promotion of tourism. Because the Lottery exists to provide funding entirely to the State, it is blended in the enterprise funds of the State.

Blended Component Unit Financial Statements

Audited financial statements for these blended component units, other than the Armory Board which is not separately audited, can be obtained directly from their respective administrative offices.

Administrative Offices:

Board of Treasury Investments
1900 Kanawha Blvd., East
Room E-122
Charleston, WV 25305

School Building Authority
Finance Division
2300 Kanawha Blvd., East
Charleston, WV 25311

Transportation
1900 Kanawha Boulevard, E.
Building 5, Room A109
Charleston, WV 25305

West Virginia Investment
Management Board
500 Virginia Street East
Suite 200
Charleston, WV 25301

West Virginia Lottery
P.O. Box 2967
Charleston, WV 25327

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Because of the nature of the services they provide and the State's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14. The State has both governmental (providing services to the government) and proprietary (providing services to external parties) component units. The component units are presented in a single column on the government-wide statements.

The major discretely presented component units are comprised of the following entities:

Economic Development Authority

The Economic Development Authority (EDA) is administered by a nine-member board composed of the Governor, Secretary of Tax and Revenue, and seven other members appointed by the Governor. EDA is responsible for developing and advancing the business prosperity and economic welfare of the State. EDA is authorized to make loans, including direct financing and operating leases to industrial development agencies for the promotion and retention of new and existing commercial and industrial development. EDA is empowered to borrow money and issue bonds (with approval of the State), notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects, and has the ability to establish loan terms, including interest rates, at its discretion. EDA promotes economic development among private industries, and though its services benefit the State by increasing the tax base, its primary function is to provide jobs.

Housing Development Fund

The Housing Development Fund (HDF) is governed by an eleven-member board consisting of the Governor, the Attorney General, the Commissioner of Agriculture, the State Treasurer, and seven other members appointed by the Governor. HDF is responsible for providing residential housing programs for low-income and moderate-income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. It is empowered to issue bonds which are payable from the mortgage payments. The assets and revenues of the bond programs of the HDF are restricted by resolution to repay the outstanding debt.

Parkways, Economic Development and Tourism Authority

The Parkways, Economic Development and Tourism Authority (the Authority) is composed of seven members. The Governor or his designee serves as its chairperson, the Secretary of the Department of Transportation is on the board, and five members are appointed by the Governor. Its responsibilities include the operation and maintenance of the West Virginia Turnpike (the Turnpike) as well as economic development and tourism projects approved by the Department of Transportation. The Authority sets the rates for using the Turnpike and may issue Parkway revenue refunding bonds payable solely from revenues of the Turnpike.

Water Development Authority

The Water Development Authority (the Authority) is governed by a seven-member board. The Governor, the Secretary of the Department of Environmental Protection, and the Commissioner of the Bureau for Public Health are members ex-officio of the board. Four members are appointed by the Governor. The Governor serves as the chair. The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects. The Authority also serves as the financial administrator of the West Virginia Infrastructure and Jobs Development Council (a major governmental fund) and the West Virginia Water Pollution Control Revolving Fund (an enterprise fund).

Higher Education

Each college and university in the Higher Education Fund (the Fund) is governed by a Governing Board, which is responsible for the general determination, control, supervision and management of the financial business and educational policies and affairs of the institution(s). The West Virginia Higher Education Policy Commission (the Policy Commission), in accordance with Senate Bill No. 653, is the single accountability point responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. It is comprised of ten persons, seven appointed by the Governor with the advice and consent of the Senate, and the Secretary of Education and the Arts, the State Superintendent of Schools, and the chairperson of the West Virginia Council for Community and Technical College Education. The Policy Commission is responsible for preparing and submitting a consolidated budget and allocating state appropriations to supplement institutional operating revenues.

Senate Bill 448 created the West Virginia Council for Community and Technical College Education (the Council), which has responsibility for developing, overseeing, and advancing the State's public policy agenda as it relates to community and technical college education. The Council is comprised of twelve persons appointed by the Governor with the advice and consent of the Senate.

The Fund is comprised of the following: Bluefield State College, New River Community and Technical College, Concord University, Eastern West Virginia Community and Technical College, Fairmont State University, Glenville State College, Marshall University, Shepherd University, Community and Technical College of Shepherd, Southern West Virginia Community and Technical College, West Liberty State College, West Virginia Higher Education Policy Commission (including West Virginia Network for Educational

Telecomputing), West Virginia Northern Community College, West Virginia State University, West Virginia School of Osteopathic Medicine, and West Virginia University (including Potomac State College, West Virginia University Institute of Technology, and West Virginia University at Parkersburg regional campuses).

In accordance with GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," the Fund's component units' financial statements are included in the Fund's component unit column in the Discretely Presented Major Component Units Financial Statements of the CAFR. The component units are the separate private nonprofit organizations of each applicable institution that are required to be reported under GASB Statement No. 39. Those organizations report under FASB standards, including FASB Statement No. 117, "Financial Reporting for Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations . . .". Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy, and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore included with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not reported because the economic resources held do not entirely or almost entirely benefit West Virginia University. The Eastern West Virginia Community and Technical College, the Greenbrier Community College Foundation, Inc. (New River), and the Southern West Virginia Community and Technical College foundations are not included because they were not significant to their institutions.

Complete financial statements for any college, university or foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301.

Regional Jail and Correctional Facility Authority

The Regional Jail and Correctional Facility Authority (hereafter referred to as the Regional Jail Authority) is governed by a seven-member board of which five members are appointed by the Governor. It was formed to replace individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

The nonmajor discretely presented component units are comprised of the following entities:

Educational Broadcasting Authority

The Educational Broadcasting Authority (EBA) consists of eleven members. Seven members are appointed by the Governor. The other four members include the State Superintendent of Schools, one member from the West Virginia Board of Education, and two members from the West Virginia Higher Education Policy Commission. EBA is responsible for extending educational, cultural, and informational experiences to all State citizens. This is accomplished through the construction and operation of noncommercial educational television and radio stations and related facilities statewide. EBA provides statewide telecommunication services for other state and public service agencies for nonbroadcasted activities such as teleconferencing, in-service training, and data delivery. EBA's revenues are derived primarily through donations, with a portion of operational costs supplemented by state and federal grants.

Jobs Investment Trust

The Jobs Investment Trust (the Trust) consists of thirteen members. The Governor, the President of West Virginia University, the President of Marshall University, the Chancellor of the West Virginia Higher Education Policy Commission, and the Executive Director of the West Virginia Housing Development Fund serve on the board by virtue of their respective positions. One member is appointed by the Governor from a list of two names submitted by the board of directors of the Housing Development Fund. One member is appointed by the Governor from a list of two names submitted by the commissioner of the division of tourism. The other six members are appointed from the general public by the Governor. The Trust is responsible for the development, promotion and expansion of West Virginia's economy and to provide opportunities to businesses and college and university students to develop and implement plans for innovative projects and investment opportunity.

West Virginia State Rail Authority

The West Virginia State Rail Authority (Rail Authority) consists of seven members. Six members are appointed by the Governor and the seventh member is the Secretary of the Department of Transportation. The Rail Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State. It can issue bonds and set rates for the rail system. The Rail Authority receives federal and state grants to supplement its cost of operations.

Solid Waste Management Board

The Solid Waste Management Board (the Board) is composed of seven members. Five members are appointed by the Governor and the remaining members are the Secretary of the Department of Health and Human Resources and the Director of the Division of Environmental Protection. The Board is responsible for improving collection and disposal of solid wastes and encouraging recycling, reuse, and recovery of resources from wastes. The Board is the financing mechanism for solid waste projects and is empowered to issue bonds (with approval of the Water Development Authority) and set a rate structure.

Racing Commission

The Racing Commission consists of three members appointed by the Governor, by and with the consent of the Senate. The Racing Commission has full jurisdiction over and shall supervise all horse race meetings, all dog race meetings, and all persons involved in the holding and conducting of horse and dog race meetings. It has the power to set fees and grant licenses and permits pertaining to horse and dog race meetings, as well as regulate the horse and dog race wagering.

Public Defender Corporation

The Public Defender Corporation represents the combined nonprofit corporations, created under authority of West Virginia Code §29-21, for the purpose of fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation disbursed in periodic allotments determined by the Executive Director of the Public Defender Services, who is appointed by the Governor. The governing body of each public defender corporation is a Board of Directors appointed by the county commissions and the Governor.

Discretely Presented Component Unit Financial Statements

Complete audited financial statements of the individual discretely presented component units can be obtained directly from their respective administrative offices.

West Virginia

Administrative Offices:

Economic Development Authority
Northgate Business Park
160 Association Drive
Charleston, WV 25311-1217

Housing Development Fund
814 Virginia Street, East
Charleston, WV 25301-2877

Parkways, Economic Development
and Tourism Authority
P.O. Box 1469
Charleston, WV 25325-1469

Water Development Authority
180 Association Drive
Charleston, WV 25311-1571

Higher Education Policy Commission
Administrative Services
1018 Kanawha Boulevard, East
Suite 700
Charleston, WV 25301

Regional Jail Authority
1325 Virginia Street, East
Charleston, WV 25301

Educational Broadcasting Authority
600 Capitol Street
Charleston, WV 25301

Jobs Investment Trust
814 Virginia Street, East
Suite 202
Charleston, WV 25301-2877

West Virginia State Rail Authority
120 Water Plant Drive
Moorefield, WV 26836-0470

Solid Waste Management Board
601 57th Street, SE
Charleston, WV 25304

Racing Commission
106 Dee Drive
Charleston, WV 25311

West Virginia Public
Defender Corporation
1900 Kanawha Boulevard, East
Building 3, Room 330
Charleston, WV 25305

Joint Venture

The Stonewall Jackson Lake State Park Project (the Project) is a joint development of certain facilities at Stonewall Jackson Lake involving the Division of Natural Resources (DNR), the United States Corps of Engineers, and McCabe-Henley Properties LP (MHP), a West Virginia limited partnership. MHP was engaged by the DNR as the sole developer and operator of the Project. Revenue bonds for the Project were issued as conduit debt by the West Virginia Economic Development Authority in 2000. The bonds are payable solely from the revenues of the Project. The DNR has neither the power to pledge the credit of the State, nor to levy taxes or assessments, nor to issue debt on behalf of the Project.

The Project incurred net losses of \$5,080,340 and \$162,068 for the years ended December 31, 2005 and 2004, respectively, as well as negative cash flows from operations of \$2,132,106 and \$934,161, respectively. Additionally, the Project was unable to make its required debt service payments in April and October 2006 resulting in an event of default. Presently, the Project has no additional sources of funding available which can be accessed to satisfy existing or future financial obligations imposed by its revenue bonds or notes payable. Cash flows generated from the Project's operations have not historically been sufficient to enable the Project to fund its operations and satisfy its debt obligations.

The Master Trust Indenture states that given the event of default, the outstanding balance on the revenue bonds may be declared due and payable in the manner and with the effect provided in the Indenture. Certain remedies available upon the occurrence of an event of default are set forth in the Indenture. At this time, the bondholders have formed a committee to explore their options but as yet have not exercised their rights with regard to the default.

The losses, negative cash flows from operations, bond covenant violations, and the Project's inability to meet its debt service requirements raise substantial doubt about the Project's ability to continue as a going concern. Furthermore, the independent auditor's report on the Project's financial statements for the year ended December 31, 2005, included a going concern opinion paragraph emphasizing that these conditions raised substantial doubt about the Project's ability to continue as a going concern. The Developer is continuing in its efforts to market the Stonewall Resort for conferences and as a vacation destination to increase revenues, and to monitor its cost of operations.

The State does not include the financial activities of the Project in its financial statements. Financial statements of the Project are available from the Stonewall Resort, 940 Resort Drive, Roanoke, WV 26447.

Basis of Presentation

The accompanying basic financial statements of the State of West Virginia (the State) conform to United States generally accepted accounting principles (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP in a similar manner as applied for business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices of the insurance, housing finance agency and other not-for-profit industries, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB).

As allowed by GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the State and the majority of its component units have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The IMB, the Educational Broadcasting Authority, and the Public Defender Corporation have elected to follow all FASB Statements and Interpretations, APB Opinions and ARBs, except those that conflict with or contradict GASB pronouncements.

The basic financial statements have been prepared primarily by the Financial Accounting and Reporting Section (FARS) of the Department of Administration from accounts maintained by the State Auditor's Office, the State Treasurer's Office, the Board of Treasury Investments, and the Investment Management Board. Additional data has been derived from the audited financial statements of certain entities and from reports and data prepared by various state agencies and departments, based on independent or subsidiary accounting records maintained by them.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Adjustments to estimates are recorded, as appropriate, in periods in which they are determined.

Certain fund balance and net asset accounts presented for the preceding year have been restated or reclassified. See Note 2 for further explanation.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all the nonfiduciary activities of the primary government and its component units. These activities are reported as governmental activities, business-type activities or component units. The governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange revenues, and are reported separately from the business-type activities. The business-type activities rely significantly on fees and charges to external parties for their support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the State's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints are placed on net asset use by external creditors, grantors, contributors, etc. or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them available for general operations. They also often have constraints on resources imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included in program revenues are reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar

items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are primarily considered available if received in the first 60 days of the new fiscal year. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal awards, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal awards are considered available when the related expenditures have been incurred and if received in twelve months. Receipts and disbursements of U.S. Government food stamps are accounted for in the General Fund. The electronic benefits transfer (EBT) process for food stamp revenue equal to expenditures is recognized when the underlying transaction (food purchase) occurs. A receivable for the Tobacco Settlement Revenue is recognized based upon the annual estimated payment in the schedule provided by the National Governors Association. Revenues from other sources are recognized when received.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences, environmental obligations, and claims and judgments, are recorded only when payments are due.

Governmental Fund Types

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than certain debt service activities and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term indebtedness.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds).

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its

citizenry. The Irreducible School Fund was constitutionally established for educational purposes. Recent legislation abolished the Tobacco Settlement Medical Trust Fund, with the balance of the funds transferred to the Revenue Shortfall Reserve Fund- Part B, which is not a permanent fund.

The State reports the following major governmental funds:

The General Fund is the primary operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State (e.g., health, social assistance, public safety, primary and secondary education), which are not required to be accounted for within other funds.

Transportation has responsibility for the construction, maintenance, and improvement of all state roads; development of public transportation facilities, services, equipment, and methods; and supervision and control of commercial, state, and municipal airports and ports.

The West Virginia Infrastructure and Jobs Development Council coordinates the review and funding of water, wastewater, and economic development projects within the State.

Proprietary Fund Types

Enterprise Funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees and charges of the activity. These funds include the State's risk management and insurance funds as well as the West Virginia Lottery, the Alcohol Beverage Control Administration, two water treatment loan programs and the West Virginia Prepaid College Plan.

Internal Service Funds account for the operations of those state agencies that provide goods and services to other state agencies and governmental units on a cost-reimbursement basis. These services include government building and vehicle maintenance and leasing, data processing functions, and the investment and management of state funds. In the government-wide statements, internal service funds are included with governmental activities.

The State reports the following major enterprise funds:

The West Virginia Lottery accounts for lottery ticket revenue, administrative and operating expenses, and distribution of net revenue to the General Fund.

The Water Pollution Control Revolving Fund provides low interest loans to communities to upgrade or establish sewer service, to clean up the State's water supply, and assist local governmental entities in complying with the Clean Water Act.

The Workers' Compensation Fund provides compensation for injury or illness sustained during the course of employment with a date of injury on or before June 30, 2005, (see Note 14).

Unemployment Compensation operates local offices throughout the State to provide temporary assistance to eligible unemployed workers.

The Public Employees' Insurance Agency and the Board of Risk and Insurance Management are shown with the proprietary major funds due to their importance to management.

Additionally, the State reports the following fund types:

Fiduciary Fund Types

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans and defined contribution plan.

Investment Trust Funds report resources in external investment pools that belong to local governments and municipalities.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. The Smart 529 College Savings Plan allows citizens to defer taxes on earnings for college tuition.

Agency Funds are used to account for assets held by the State as an agent for individuals, private organizations or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Taxes that will be remitted to respective local governments and hospital patient and inmate funds are examples of the State's agency funds.

Interfund Activity and Balances

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: activities between funds reported as governmental activities and funds reported as business-type activities; and activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund expending the resources. An example is lottery proceeds collected by the West Virginia Lottery, but expended by the Department of Education.

Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

Budgetary Basis of Accounting

The State's budget is adopted in accordance with a statutory basis of accounting which does not conform to GAAP. Revenues are generally recognized when cash is received. Expenditures generally are recorded when the related cash disbursement occurs. At year-end, accounts payable and accrued payroll and related benefits are recognized to the extent they are paid as of July 31, if the goods or services have been encumbered by June 30. If encumbered goods or services are not received by July 31, such encumbrances lapse; therefore, no reserve for encumbrances is reported at year-end. See related budgetary comparison schedule and note in Required Supplementary Information for more details on budgetary matters.

Assets and Liabilities

Cash and Cash Equivalents - Cash equivalents are short-term investments with maturities, when purchased, of three months or less. The State Treasurer principally deposits the State's cash in investment pools maintained by the Board of Treasury Investments (BTI) and IMB, and such deposits are generally available with overnight notice. Deposits in the BTI pools that are 2a-7-like pools are reported at amortized cost, which approximates the fair value of underlying securities. Cash deposits in outside bank accounts are considered to be cash and cash equivalents.

Investments - Amounts reported as investments include certain deposits with the IMB, the BTI and other investments maintained in outside accounts. The investments at IMB are maintained in investment pools having long-term investment securities designated as trading securities or established to acquire participant-directed securities. The State participates in three external investment pools managed by the BTI and IMB. The two at the BTI are considered 2a-7-like pools and are reported at amortized cost. The third, at IMB, is a longer-term investment pool that carries investments at fair value. Unit transactions in this pool are priced at the pool's current net asset value which fluctuates with changes in the fair value of its investments. The fair value of investments is derived primarily from a third-party pricing service based on asset portfolio pricing models and other sources. Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded. Investments in commingled investment pools are valued at the reported unit values of the individual funds. Because fair value of the investments of the State Building Fund approximates amortized cost, no noncash change in fair value is reported.

Inventories - Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes. Materials and supplies inventories are physically counted and primarily valued at FIFO and average cost at year-end. Inventories of governmental funds are recorded using the consumption method. A reservation of fund balance is recorded for the ending inventory amount, indicating that inventory does not constitute "expendable available financial resources." Proprietary fund and component units' inventories are valued at the lower-of-cost or market, cost being determined on the first-in, first-out method, and are expensed when used.

Tuition Contracts - Revenue related to tuition contracts within the West Virginia Prepaid College Plan (the Plan) is recorded in the year contracts are entered into with the purchaser. Tuition contract revenue is recorded at the present value of future contract payments adjusted for estimated cancellations. Application fees are recognized as revenue when received. Tuition contracts receivable at the balance sheet date represents the Program management's best estimate of the present value of future contract payments using a 7.25% discount rate. An accrued contract benefits liability is recognized based upon the actuarial present value of the future tuition contract obligation. This valuation method reflects the present value of estimated tuition contract benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. When a beneficiary of the prepaid tuition program is accepted to an eligible college or university, the contract becomes redeemable. Benefits can be transferred to any fully accredited private or out-of-state college or university within the United States in an amount based on the average cost of tuition and fees then charged by West Virginia public colleges and universities. While a beneficiary has up to ten years after high school to use the Plan benefit, four other options are available: 1) the purchaser may transfer the contract benefits to an eligible substitute beneficiary; 2) at any time four years or more after the beneficiary's

expected college entrance date, the purchaser may request a refund of the contract benefit value, less a termination fee and an earnings penalty required by federal law; 3) at any time, the purchaser may cancel the contract and receive a refund of payments made, less administrative fees and any benefits already paid; or 4) the purchaser may transfer the prepaid contract value to the Program's Savings Plan in accordance with state and federal regulations.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. In accordance with the capitalization policy adopted by the State for financial reporting, equipment in excess of \$25,000 is capitalized. Certain small blended component units follow other capitalization policies which range from \$5,000 to \$25,000 for equipment. The Higher Education component unit uses \$1,000 and \$5,000 thresholds. Buildings and improvements which extend the useful lives and/or significantly increase values of capitalized buildings with a combined value in excess of \$100,000 are capitalized. All land, regardless of acquisition price, is capitalized.

West Virginia is one of only four states that owns all the roads in the State, except for city streets. Infrastructure was capitalized for the first time in fiscal year 2002. Transportation's infrastructure constructed from July 1, 1980 to July 1, 2001, has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by DOT in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. DOT has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized. Other agencies are capitalizing all infrastructure assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The capital assets are depreciated over their estimated useful lives using the straight-line depreciation method. Amortization of capital lease assets is included with depreciation expense. Equipment, depending on type, is depreciated over 3-20 years. Buildings are depreciated over various lives, ranging from 20-50 years. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The infrastructure assets are depreciated over a period of 20-50 years.

The State possesses certain capital assets that have not been capitalized and depreciated, including works of art and historical treasures, such as monuments, historical documents, paintings, antiques, pioneer, Indian, and Civil War artifacts, etc. GASB Statement No. 34 does not require the capitalization of works of art and historical treasures if the collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State considers its collections as inexhaustible, protected collections for exhibition and education, not for financial gain.

In 2006, the State adopted GASB Statement No. 42, "Accounting and Financial Reporting for the Impairment of Capital Assets and for Insurance Recoveries," which requires the evaluation of capital assets to determine whether events or changes in circumstances have resulted in impaired assets and recording losses and recoveries accordingly. This statement had no significant effect on the State's basic financial statements.

Insurance Enterprises and Obligations - The Board of Risk and Insurance Management, (BRIM), the Public Employees' Insurance Agency (PEIA) and the Workers' Compensation Fund (WCF) each represent and are accounted for as insurance enterprise funds of the State. These funds follow the guidance of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," and GASB Statement No. 30, "Risk Financing Omnibus." BRIM and PEIA are considered public entity risk pools (enterprise funds). Each organization has included the required supplementary information (in accordance with GASB Statement No. 30) in its separately audited financial statements.

Advances - The amount of Economic Development Authority loans held by the State's General Fund at June 30, 2006, is approximately \$121.9 million and is recorded as Advances to/from Component Units.

Long-Term Liabilities - In the government-wide financial statements and proprietary fund financial statements, long-term obligations, including claims and judgments, environmental obligations and compensated absences, are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 240 to 320 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of Social Security and retirement contributions. In lieu of a cash payment, at retirement an employee can elect to use accumulated annual leave toward their postemployment health care insurance premium. State employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, eligible employees may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits with such sick leave constituting additional credited service in computation of such benefits. These options and computations may occur for state employees under the State's retirement systems. Currently, the computation of compensated absences does not include the projected unused sick leave portion expected to be elected as additional credited service towards retirement. However, the unused portion of sick leave that is expected to be converted to additional credited service for retirement benefits is considered in the actuarial valuation used to calculate the net pension obligation. The liability for accumulated sick leave for employees has been recorded using the vesting method.

Net Assets/Fund Balance - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

Restricted Net Assets - Certain net assets are restricted due to legal restrictions from creditors, grantors, or laws and regulations of other governments. Certain other net assets are restricted by legally enforceable enabling legislation of the State (see Note 2).

Reservations - Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect funds legally segregated for a specific use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Unreserved designated fund balance represent management's desire to maintain certain funds for future use.

Revenues and Expenditures/Expenses - In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type and discretely presented component units), then further by function (e.g., administration, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal awards), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital Outlay," or "Debt Service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Capital outlay includes expenditures for real property or infrastructure. Debt service includes both interest and principal outlays related to bonds and payments on capital leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., sales, depreciation, etc.). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Retiree Drug Subsidies - The retiree drug subsidy (RDS) revenue from the federal government under the provisions of Medicare Part D have been recorded by the Public Employees' Insurance Agency (PEIA). PEIA has accounted for the RDS revenue as voluntary nonexchange transactions in accordance with GASB Technical Bulletin 2006-1. Accordingly, RDS estimated revenue is recognized as PEIA incurs Medicare-eligible retiree prescription drug expenditures.

Other Financing Sources - These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Other Financing Uses - These reductions of governmental fund resources in the fund financial statements normally result from transfers to other funds.

Interfund Services Provided and Used - When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser reports an expenditure or expense, depending on the fund type. Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

Future Adoption of Accounting Pronouncements

The GASB has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). The State has not previously reported in its financial statements costs associated with future participation of retirees in health benefit plans. The GASB statements are based on the premise that the "costs" of employee services should be reported during the periods when the services are rendered. Beginning with the fiscal year ending June 30, 2007, the State will implement financial reporting requirements for OPEB "substantive plans" under GASB Statement No. 43; beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements will report OPEB funded status and funding progress and any "premium subsidy" resulting from the pooling of retiree participants with active employees in the health benefit plans. For "employer" OPEB reporting the State will report "expense" on an accrual basis in the amount of the "annual required contribution" and a "liability" for the amount of the "annual required contribution" that was not actually paid.

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB No. 43, the ARC which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residue funds held in trust for future OPEB costs. Because the necessary actuarial study has not yet been completed, the annual required contribution rates are not yet available. The State's participation in the costs of the health benefit plans remains subject to the annual appropriations process, and the plan terms, benefits, and cost to participants remain within the discretion of PEIA. This is not changed by the GASB Statements, which are financial reporting standards and do not govern fiscal management or establish legal requirements.

Policy, budget, and program areas of State government are actively considering and planning proper responses to health care costs in general and specifically retiree health costs. A preliminary actuarial study has been done to facilitate evaluation of possible reductions in the OPEB benefits offered, including plan modifications, increasing levels of employee contributions or other cost-sharing provisions. The preliminary actuarial evaluation estimated the current discounted unfunded actuarial liability ranging from \$5 to \$8 billion depending on variations of the actuarial assumptions, using discount rates of 4.6% to 7.8%.

At the present time the State cannot reasonably estimate the ultimate impact on the basic financial statements of implementing the new standards. However, based on the current level of expenditures/expenses and other preliminary analysis of the OPEB obligation, management expects that the implementation of the proposed standards will have a material effect on the State's financial position, changes in financial position, and cash flows.

The GASB recently issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. The State will implement this standard for the fiscal year ending June 30, 2008, but has not yet estimated the financial statement impact of this pronouncement.

The GASB recently issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This statement establishes accounting and financial reporting standards for liabilities related to pollution remediation and will be effective for the State for the fiscal year ending June 30, 2009. The State has not yet estimated the financial statement impact of this pronouncement.

NOTE 2

RESTATEMENTS, RESTRICTED, RESERVED AND DESIGNATED BALANCES

Restatement of Beginning Balances

During the current fiscal year there was a reorganization of the Insurance Commission, which resulted in a change in reporting entity between the General Fund and the Insurance Commission special revenue fund. The beginning net assets of the general fund and Insurance Commission were restated as shown below (expressed in thousands):

<u>Net Assets</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
General Fund	\$889,768	\$(11,837)	\$877,931
Insurance Commission	2,513	11,837	14,350

Additionally, during the year, management completed a review of its capital asset records and discovered certain buildings that had been previously omitted from capital assets being depreciated in error in the government-wide financial statements. Accordingly, the beginning net assets for governmental activities and total primary government were restated to include such assets as summarized below (expressed in thousands):

<u>Net Assets</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Governmental Activities	\$6,776,140	\$117,597	\$6,893,737
Total Primary Government	5,335,657	117,597	5,453,254

Restricted Net Assets

The following tables summarize the restricted net assets of funds included in “other” columns at June 30, 2006, (expressed in thousands):

<u>Fund Type/ Fund</u>	<u>Total Reporting Entity</u>	<u>Capital Projects</u>	<u>Program Administration</u>	<u>Lending Activities</u>	<u>Other Specific Fund Purposes</u>
Enterprise Funds:					
Drinking Water Treatment Revolving Fund	\$50,736	\$ —	\$ —	\$50,736	\$ —
West Virginia Prepaid College Plan	465	—	465	—	—
AccessWV	<u>3,584</u>	—	<u>3,584</u>	—	—
	<u>54,785</u>	—	<u>4,049</u>	<u>50,736</u>	—
Internal Service Funds:					
State Building Fund	<u>37,350</u>	<u>37,350</u>	—	—	—
Discretely Presented Component Units:					
Educational Broadcasting Authority	351	—	—	—	351
Solid Waste Management Board	<u>4,128</u>	—	—	—	<u>4,128</u>
	<u>4,479</u>	—	—	—	<u>4,479</u>
Total	<u>\$96,614</u>	<u>\$37,350</u>	<u>\$4,049</u>	<u>\$50,736</u>	<u>\$4,479</u>

The government-wide statement of net assets reports \$1,659,058,000 of restricted net assets for the primary government of which \$1,074,780,000 is restricted by legally enforceable enabling legislation.

Reserved Fund Balance

The following table summarizes the reserved fund balance of funds included in “other” columns at June 30, 2006, (expressed in thousands):

<u>Fund Type/Fund</u>	<u>Total Reporting Entity</u>	<u>Inventory</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Program Administration</u>	<u>Permanent Funds</u>
Governmental Funds						
Special Revenue Funds:						
WORKFORCE West Virginia	\$ <u>13,756</u>	\$ <u>83</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>13,673</u>	\$ <u>—</u>
Capital Projects Funds:						
School Building Authority	199,348	—	199,348	—	—	—
Lease Purchase Accounts	<u>37,213</u>	<u>—</u>	<u>37,213</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>236,561</u>	<u>—</u>	<u>236,561</u>	<u>—</u>	<u>—</u>	<u>—</u>
Debt Service:						
School Building Authority	53,639	—	—	53,639	—	—
West Virginia Infrastructure and Jobs Development Council	250	—	—	250	—	—
Education, Arts, Sciences, and Tourism Fund	26,400	—	—	26,400	—	—
Lease Purchase Accounts	14,310	—	—	14,310	—	—
Economic Development Project Fund	<u>37,166</u>	<u>—</u>	<u>—</u>	<u>37,166</u>	<u>—</u>	<u>—</u>
	<u>131,765</u>	<u>—</u>	<u>—</u>	<u>131,765</u>	<u>—</u>	<u>—</u>
Permanent Funds:						
Irreducible School	<u>1,886</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,886</u>
Total	<u>\$383,968</u>	<u>\$83</u>	<u>\$236,561</u>	<u>\$131,765</u>	<u>\$13,673</u>	<u>\$1,886</u>

The amount reserved for Specific Fund Purposes, \$193,259,000, includes other legally segregated accounts in the General Fund such as: flood disaster accounts, funds collected on behalf of injured third parties, certain education funds, certain economic development funds, certain wildlife and conservation funds, and escrow accounts.

Designated Fund Balance

Designation of fund balance for loans and grants in the governmental funds of \$128,405,000 represents commitments of West Virginia Infrastructure and Jobs Development Council to loan funds to applicants for infrastructure projects. After year-end and through December 31, 2006, loan and grant agreements were executed for approximately \$27.7 million of these funds.

NOTE 3

FUND DEFICITS

Individual funds with net asset/fund balance deficits at June 30, 2006, were as follows (expressed in thousands):

	Net Asset/ Fund Balance Deficit
Special Revenue Funds:	
WORKFORCE West Virginia	\$ 6,422
Enterprise Funds:	
Workers' Compensation Fund	2,101,757
West Virginia Prepaid College Plan	<u>5,260</u>
Total Deficits	<u>\$2,113,439</u>

Special Revenue Funds

The fund balance of the WORKFORCE West Virginia (formerly Bureau of Employment Programs) changed from \$2.6 million deficit to a deficit of \$6.4 million, a 69.5% decrease in fund balance. Consequently, WORKFORCE West Virginia's unrestricted net assets show a \$26 million deficit at the end of the year. The unrestricted net asset deficit increased from \$14.4 million, which is an 81% increase from last year. WORKFORCE West Virginia has taken significant steps to strengthen internal controls within the organization and to improve fiscal accountability and monitoring of the local workforce investment boards. Procedures are being put into place to ensure that charges to programs are allowable and proper and that grant obligations do not exceed the current grant funds available. Fiscal guidelines for the local workforce investment boards have been issued and fiscal training with their key fiscal personnel has been conducted. WORKFORCE West Virginia is continuing to improve its budgetary process and is looking at various methods to control expenses; including, but not limited to, budget cutbacks, closing of offices, and the reorganization of various job responsibilities. In addition, a more comprehensive oversight program to monitor the seven subrecipient workforce investment boards is being developed in an effort to reduce non-allowable expenditures. Furthermore, a comprehensive review of the workforce investment board structure will be performed to determine if a more cost effective structure that delivers the same level of client service can be implemented. In order to improve the fiscal condition, non-federal funds from the Legislature of the State will be requested. These funds will be utilized to repay liabilities due to the Federal government as a result of the review. In addition, funding will be sought to eliminate future anticipated deficits as estimated by management.

Enterprise Funds

Workers' Compensation Fund deficit of \$2,101,757,000 is more fully discussed in Note 14, Risk Management.

West Virginia Prepaid College Plan (the Plan) has a net assets deficiency of approximately \$5.3 million as of June 30, 2006. This deficiency was largely caused by investment losses incurred in prior years, unexpected tuition increases beginning with the 2002-2003 school year, and changes in prior year's estimates of future investment rates of return and tuition growth. The West Virginia College Prepaid Tuition and Savings Program's ability to pay obligations of the Prepaid Tuition Plan is dependent on long-term investment programs and adequate levels of future cash flows.

The Plan sought and received support from the State Legislature to support payment of plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account (the Escrow Account) to guarantee payment of plan contracts. Under the initial legislative action, the Escrow Account received transfers of up to \$500,000 each year there was an actuarially determined unfunded liability of the Plan. In the 2006 legislative session, the amount was increased to \$1,000,000. All earnings on the transferred funds will remain in the Escrow Account. In the event the Plan is unable to cover the amount of money needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. In December 2005, 2004, and 2003, \$500,000 was transferred each year to the Escrow Account because the Plan had actuarial deficits of approximately \$6.6 million at June 30, 2005, \$11.8 million at June 30, 2004, and \$13.5 million at June 30, 2003. The funds were invested and have had a net investment gain of \$53,340 for the three years ended June 30, 2006, leaving the account with a balance of \$1,553,340 at June 30, 2006. Because there was an actuarially determined unfunded liability of approximately \$5.3 million in the Plan as of June 30, 2006, an additional \$706,449,000 was transferred from the Fund to the Escrow Account on December 1, 2006, in accordance with the provisions enacted by the Legislature. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Plan and are not included in the Plan's financial statements.

Also in March 2003, the West Virginia Legislature closed the Plan to new enrollment until the Legislature authorizes it to reopen. The Plan will continue in existence and no current contracts will be affected by the closure. Contract holders are supposed to continue to pay any amounts due, and the Plan will continue to pay benefits due with available funds.

Management believes that the Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2007. The financial statements do not reflect any adjustments that might result should the plan to eliminate the net assets deficiency fail to be successful.

NOTE 4

DEPOSITS AND INVESTMENTS

Deposits

The State's deposit policy is described in West Virginia's State Code §12-2-2 and 3. All monies are to be maintained in the State accounting system or in an outside bank account approved by the State Treasurer's Office.

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the State would not be able to recover its deposits or collateralized securities that are in possession of the outside parties. According to State Code §12-1-5, the amount of funds on deposit in any depository financial institution in excess of the amount insured by the FDIC shall not exceed 90% of the value of collateral pledged by the depository institution. The State minimizes custodial credit risk by obtaining the required amount of collateral in the name of the State. The State Treasurer has statutory responsibility for the daily cash management of the State's agencies, departments, boards, and commissions.

Primary Government

At June 30, 2006, the reported amount of the primary government's deposits was \$106,372,000 and the bank balance was \$306,359,000. Of that bank balance, \$12,852,000 was uninsured and uncollateralized, \$1,003,000 was uninsured and collateralized with securities held by the pledging financial institution but not in the name of the State, and \$1,445,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the State.

Component Units

At June 30, 2006, the reported amount of the component units' deposits was \$174,178,000 and the bank balance was \$100,479,000. Of that bank balance, \$326,000 was uninsured and uncollateralized, \$5,110,000 was uninsured and collateralized with securities held by the pledging financial institution but not in the name of the State, and \$487,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the State.

Investments

The 2005 West Virginia Legislature established the Board of Treasury Investments, effective July 8, 2005, to make short-term operating funds of the State more accessible to state government and to allow the IMB, which had managed the Consolidated Fund, to focus on the State's long-term trust investments. The BTI is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code, Chapter 12, Article 6C, West Virginia Treasury Investments Act. The Consolidated Fund provides for the investment of moneys not currently needed to fund State governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The IMB provides fiscal administration and investment management services to designated State pension funds, the State's Workers' Compensation and Pneumoconiosis funds, and certain other State government funds. The State Treasurer's Office determines which funds to transfer to the IMB and BTI for investment in accordance with West Virginia Code, policies set by the IMB and BTI, and by provisions of bond indentures and trust agreements, when applicable.

The BTI is authorized by West Virginia Code Chapter 12, Article 6C, Section 9, to invest in United States government and agency obligations, commercial paper, corporate bonds, repurchase agreements, asset-backed securities, and investments in accordance with the Linked Deposit Program, which is a program using financial institutions in the state to reduce loan costs to small businesses by offsetting interest reductions on the loans with certificates of deposit, loans approved by the Legislature, and any other programs authorized by the Legislature. In addition to the restrictions in investment types, at no time shall more than seventy-five percent of the Consolidated Fund be invested in any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association and at no time shall more than five percent be invested in securities issued by a single private corporation or association. Further, no less than fifteen percent of the Consolidated Fund shall be invested in any direct obligation of or obligation guaranteed by the United States government.

Investment Valuation

The BTI is an investment vehicle of the State and its component units, all of which are government entities. The investments of the Cash Liquidity, Government Money Market, Loans, Municipal Bond Commission, and EDA pools are, as permissible under Government Accounting Standards Board ("GASB") Statement No. 31, carried at amortized cost. The Cash Liquidity and Government Money Market pools are considered "2a7-like" investment pools and, as such, are reported at amortized cost, which approximates fair value. A 2a7-

like pool operates in a manner consistent with the Securities and Exchange Commission (the “SEC”) Rule 2a7 of the Investment Company Act of 1940, which allows money market mutual funds to use amortized cost to report net assets. A 2a7-like pool is not necessarily registered with the SEC as an investment company, but it would qualify as a money market fund should it be registered. The specific GASB 31 exceptions to fair value reporting for the other pools are as follows:

<u>Pool</u>	<u>Exception</u>
Loans	Loans receivable arising from real estate lending activities
Municipal Bond Commission	Irrevocable trust meeting the requirements of a legal or in-substance defeasance
EDA Insurance	Internal investment pool holding only money market investments with remaining maturities of one year or less

The investments of the remaining pools are reported at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources. Investments in commingled investment pools are valued at the reported unit values of the individual funds. Commissions on the purchases of securities by the BTI are a component of the security price quoted by the seller and are included in the investment cost.

A more detailed discussion of the IMB’s and BTI’s investment pools can be found in the IMB’s and BTI’s annual reports. A copy of the IMB’s annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>. A copy of the BTI’s annual report can be obtained from the following address: 1900 Kanawha Boulevard East, Room E-122, Charleston, WV, 25305 or <http://www.wvbt.com>.

Except as specifically disclosed in this note, the State currently does not have specific overall policies addressing limitations on specific risk types, such as credit risk, custodial credit risk, concentration of credit risk, interest rate risk or foreign currency risk.

In addition to amounts invested with the IMB and BTI, certain governmental funds and discretely presented component units are permitted to invest bond proceeds with third-party trustees named in bond indentures. The governmental funds include the Education, Arts, Sciences, and Tourism Fund; School Building Authority; West Virginia Infrastructure and Jobs Development Council; the Department of Health and Human Resources; the Department of Administration; Travel Management; West Virginia Investment Management Board; and the Smart 529 College Savings Plan. The following discretely presented component units have reported investments held with third-party trustees: Regional Jail Authority; Educational Broadcasting Authority; Jobs Investment Trust;

Housing Development Fund; Parkways, Economic Development and Tourism Authority; WV State Rail Authority; Water Development Authority; Solid Waste Management Board; and Higher Education. Assets of the Teachers' Defined Contribution Retirement System of the Consolidated Public Retirement Board are held by an outside third party.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities (SLGS); and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

The State's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The IMB invests in derivative financial investments as authorized by its Board of Trustees. As of June 30, 2006, IMB had four types of derivative financial investments: Futures Contracts, Option Contracts, Foreign Exchange Forward Contracts, and Asset-Backed Securities. Additionally, the IMB is indirectly exposed to derivative risk through participation in mutual funds or other investment vehicles that use derivatives. Detailed derivative disclosures are not available for indirect derivative participation.

Repurchase Agreements

In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

The BTI uses only tri-party repurchase agreements. Under the terms of a tri-party repurchase agreement, the seller transfers collateral securities to an account of the BTI's manager/agent at the seller's custodian bank. This arrangement perfects the BTI's lien on the collateral and effectively protects the BTI from a default by the seller. The BTI requires sellers in repurchase transactions to pledge collateral of at least 102% of the cash borrowed from the BTI. If the seller defaults and the fair value of the collateral declines, realization of the collateral by the BTI may be delayed or limited.

Foreign Currency

Amounts denominated in or expected to settle in foreign currencies are translated into United States dollars at exchange rates reported by Mellon Bank on the following basis:

- Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.
- Purchases and sales of investment securities, income and expenses - at the rate of exchange prevailing on the respective dates of such transactions.

The IMB isolates that portion of the changes in financial position resulting from changes in foreign exchange rates on investments from the fluctuations arising from market prices of securities held.

Reported net realized foreign exchange gains and losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded and the United States dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities including investments in securities at month-end, resulting from changes in the exchange rate.

Futures Contracts

A futures contract is an agreement between a buyer or a seller and the clearinghouse of a futures exchange in which the parties agree to buy or sell a commodity, financial instrument or index at a specified future date and price. The IMB invests in financial futures contracts in the Fixed Income Pool and the Non-Large Cap Domestic Equity Pool. Upon entering into a financial futures contract, the IMB is required to pledge to the broker an amount of cash, U.S. Government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Cash (variation margin) is received from or paid to the broker each day for the daily fluctuations of the underlying securities or index. The IMB records the cash received or paid for the variation margin as a realized gain or loss. Interest rate futures may be used to enhance portfolio yields, to hedge an existing position, or as an alternative investment of cash. Stock index futures

may be used to provide immediate exposure to fluctuations in the market exposure of the stocks in the underlying index and to provide liquidity for cash flows. The market risk associated with holding interest rate and stock index futures results from changes in the market value of the contractual positions due to changes in the value of the underlying instruments or indices. IMB limits its exposure to these risks by establishing and monitoring limits on the type and total value of futures contracts that may be held. Other risks associated with futures contracts are liquidity risk and credit risk. Liquidity risk arises when there is insufficient trading in a particular futures contract. Credit risk arises from the potential inability of counterparties to meet the terms of the contracts. The IMB requires its managers to only utilize futures contracts that are traded on major exchanges or are executed with major dealers. The major exchanges assume the risk that a counterparty will not settle and generally require an initial margin deposit of cash or securities. The net change in the futures contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the statement of changes in net assets. As of June 30, 2006, the futures contracts had the following open positions (expressed in thousands):

	<u>Value Upon</u> <u>Entering Contract</u>	<u>Value at</u> <u>June 30, 2006</u>	<u>Net Gain</u> <u>or (Loss)</u>
Long-Non-Large Cap			
Domestic Equity Pool	\$ 1,506	\$ 1,503	\$ (3)
Long-Fixed Income Pool	213,626	213,618	(8)
Short-Fixed Income Pool	(160,163)	(159,596)	567

At June 30, 2006, the Non-Large Cap Domestic and the Fixed Income pools have pledged cash and securities valued at \$97,000 and \$1,777,000, respectively, to cover initial margin requirements on open futures contracts.

At June 30, 2006, the net variation margin receivable of \$13,000 in the Non-Large Cap Domestic pool and \$26,000 in the Fixed Income pool represent one day's settlement on open futures contracts.

Option Contracts

IMB may purchase or write equity, bond, currency, or index option contracts that have recognized liquidity and are actively traded on major exchanges or are executed with major dealers. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security, or settle cash for an index option, underlying the contract at an agreed-upon price (strike price) during or at the conclusion of a specified period of time. Premiums paid upon the purchase of an option contract are recorded as an asset

and subsequently adjusted to market value. Upon exercising a purchased option, a gain is recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, less premiums paid. If the option expires unexercised, a loss is recognized in the amount of the premiums paid for the option. Premiums received when option contracts are written are recorded as a liability and subsequently adjusted to market value. If a written option contract expires unexercised, a gain is recorded equal to the amount of the premiums received. The difference between the premiums received and the amount paid to effect a closing transaction is also recorded as a gain or loss. When a written option is exercised, a loss is recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, less premiums received. One of the IMB's fixed income managers uses written option contracts to enhance investment returns and reduce portfolio convexity when implied volatility is high. Purchased option contracts are used to increase portfolio convexity when implied volatility is low, to implement certain yield curve strategies, or to hedge sector exposure.

When writing put options, there is a risk that a loss may be incurred if the market price of the underlying instruments decreases and the option is exercised. The risk associated with writing call options is the loss of potential profit if the market price of the security increases and the option is exercised. Purchased put or call options bear the risk of loss of the premium paid if market conditions are not favorable to exercise the option. There may also be risk that the value of the option contract doesn't correlate perfectly with movements of the underlying instrument due to certain market distortions. To limit its exposure to these risks, the IMB has established limits on the value and use of option contracts. The IMB limits its exposure to credit by only buying or selling options traded on major exchanges, or executed with major dealers. There is a risk of the inability to enter into a closing transaction if a liquid secondary market does not exist. The IMB maintains sufficient levels of cash or cash equivalents to meet cash flow obligations. The net change in the option contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the Statement of Changes in Net Assets. As of June 30, 2006, there were no open option contracts.

Foreign Exchange Forward Contracts

A foreign exchange forward contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The IMB's International Equity Pools' investment managers enter into such contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates

at month-end. At June 30, 2006, the IMB was party to outstanding foreign exchange forward contracts to purchase foreign currencies with contract amounts of \$1.871 million, collectively. Market values of these outstanding contracts were \$1.870 million resulting in net unrealized loss of approximately \$1,000. The unrealized gain or loss is reclassified to realized gain or loss when the contract expires and deposited at fair value.

Asset-Backed Securities

The IMB invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value. They are included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk. The IMB invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment and market value of the underlying assets.

The BTI has certain pools that invest in various asset-backed securities and structured corporate debt. The securities are reported at fair value. The pools invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

Security Loans

The IMB is authorized by statute and policy to participate in a securities lending program. The BTI Board has authorized the BTI securities lending program. Through an agent, Mellon Bank, the IMB and BTI loan securities to various brokers on a temporary basis. The transactions may be terminated at any time with proper notice. Each transaction for U.S. securities is secured by initial collateral of at least 102% of the market value of the securities loaned. For international securities, the collateral is at least 105% of the market value of the securities on loan. The BTI will accept only the following as collateral: cash; U.S. Treasury obligations or U.S. Government Agency obligations; and irrevocable letters of credit issued by banks rated A1 or P1, independent of borrowers. Cash collateral received is invested in the Mellon GSL DBT II Collateral Fund. Neither the BTI nor Mellon matches maturities of investments made with cash collateral to maturities of

securities loaned. Non-cash collateral cannot be pledged or sold unless the borrower defaults. The Collateral Fund operates as a stable value fund and provides for liquidity to meet maturing loans. The IMB and BTI receive a portion of the income from the investment of the collateral and also continue to receive interest and dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the financial statements of the various investment pools. Mellon indemnifies IMB and BTI against loss from borrower failure, which means that the IMB and BTI will receive contractual settlement regardless of whether the borrower returns securities loaned. Mellon also indemnifies the BTI against operational errors. As of June 30, 2006, the IMB and BTI has no credit risk exposure to borrowers because the amounts the IMB and BTI owes the borrowers exceed the amounts the borrowers owe the IMB and BTI.

At June 30, 2006, the fair value of securities on loan and collateral held by the pools of the IMB and BTI are as follows (expressed in thousands). Of the collateral held, \$986 million was received as cash. The collateral received as cash is invested in the Mellon GSL DBT II Collateral Fund. For securities loaned at June 30, 2006, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions.

	<u>Fair Value of Securities on Loan</u>	<u>Collateral Held</u>
Large Cap Domestic	\$ 71,165	\$ 73,724
Non-Large Cap Domestic	189,094	196,401
International Equity	119,540	126,855
Short-Term Fixed Income	74,885	76,394
Fixed Income	338,098	343,954
Cash Liquidity	292,400	298,223
Government Money Market	33,840	34,513
Enhanced Yield	<u>122,911</u>	<u>125,291</u>
Total	<u>\$1,241,933</u>	<u>\$1,275,355</u>

Investment Pools

Schedule of Participation

The following schedule details the participation in the various pools exclusive of those pools comprising the Consolidated Fund or Participant Directed Accounts (expressed in thousands). The participant balances below for the Fixed Income Pool do not include the approximately \$4 million dividend declared by the pool on the last day of the month and reinvested to the participant's accounts on the first day of the following month.

	<u>Large Cap Domestic</u>	<u>Non-Large Cap Domestic</u>	<u>International Qualified</u>	<u>International Nonqualified</u>
Primary Government:				
Revenue Shortfall Reserve Fund	\$ —	\$ —	\$ —	\$ —
Revenue Shortfall Reserve Fund B	57,693	34,257	—	16,372
Workers' Compensation Old Fund	81,879	47,911	—	17,364
Workers' Compensation Self-Insured	—	—	—	—
Workers' Compensation Uninsured	—	—	—	—
Pneumoconiosis	20,501	12,212	—	5,231
Wildlife Endowment Fund	8,743	5,165	—	2,062
Prepaid Tuition Trust Fund	23,535	13,737	—	5,192
Prepaid Tuition Trust Escrow Fund	—	—	—	—
Board of Risk & Insurance Management	8,363	5,097	—	2,371
Public Employees' Insurance Agency	<u>9,245</u>	<u>5,590</u>	<u>—</u>	<u>2,628</u>
Total Primary Government	<u>209,959</u>	<u>123,969</u>	<u>—</u>	<u>51,220</u>
Percentage of Ownership	12.15%	12.39%	—%	100%
Fiduciary Funds:				
Judges' Retirement System	20,427	12,286	5,856	—
Public Employees' Retirement System	903,218	510,331	258,281	—
Teachers' Retirement System	454,302	272,909	123,002	—
Public Safety Retirement System	113,626	65,572	25,417	—
State Police Retirement System	7,438	4,424	1,979	—
West Virginia Deputy Sheriff's Retirement System	<u>18,823</u>	<u>11,240</u>	<u>5,309</u>	<u>—</u>
Total Fiduciary Funds	<u>1,517,834</u>	<u>876,762</u>	<u>419,844</u>	<u>—</u>
Percentage of Ownership	87.85%	87.61%	100%	—%
Total Amount	<u>\$1,727,793</u>	<u>\$1,000,731</u>	<u>\$419,844</u>	<u>\$51,220</u>
Percentage of Ownership	100%	100%	100%	100%

<u>International Equity</u>	<u>Short-Term Fixed Income</u>	<u>Fixed Income</u>	<u>Fixed Income Qualified</u>	<u>Fixed Income Nonqualified</u>	<u>Totals (Memorandum Only)</u>
\$ —	\$ 24,225	\$ —	\$ —	\$ —	\$ 24,225
29,860	837	58,098	—	37,379	234,496
45,649	63,365	231,767	—	155,204	643,139
—	1,279	—	—	—	1,279
—	5,114	—	—	—	5,114
10,525	11,424	114,843	—	75,970	250,706
4,658	54	9,002	—	5,589	35,273
12,380	10	23,599	—	15,127	93,580
—	—	930	—	622	1,552
4,261	2	51,575	—	33,693	105,362
<u>4,683</u>	<u>15,692</u>	<u>70,381</u>	<u>—</u>	<u>46,269</u>	<u>154,488</u>
<u>112,016</u>	<u>122,002</u>	<u>560,195</u>	<u>—</u>	<u>369,853</u>	<u>1,549,214</u>
12.16%	30.66%	26.69%	—%	100%	19.44%
10,891	2,634	20,981	12,815	—	85,890
480,228	23,571	924,817	593,722	—	3,694,168
244,700	241,650	458,295	283,611	—	2,078,469
59,053	7,138	108,064	73,280	—	452,150
3,958	426	7,734	4,770	—	30,729
<u>9,981</u>	<u>551</u>	<u>19,085</u>	<u>12,047</u>	<u>—</u>	<u>77,036</u>
<u>808,811</u>	<u>275,970</u>	<u>1,538,976</u>	<u>980,245</u>	<u>—</u>	<u>6,418,442</u>
87.84%	69.34%	73.31%	100%	—%	80.56%
<u>\$920,827</u>	<u>\$397,972</u>	<u>\$2,099,171</u>	<u>\$980,245</u>	<u>\$369,853</u>	<u>\$7,967,656</u>
100%	100%	100%	100%	100%	100%

Investment Pool Descriptions

Large Cap Domestic

The pool's objective is to exceed, net of external management fees, the S&P 500 Stock Index over three- to five-year periods. Enhanced Investment Technologies, LLC and State Street Global Advisors manage assets of this pool. This pool holds equity securities of U.S. companies and money market funds which are rated AAA by Standard & Poor's and Aaa by Moody's.

Non-Large Cap Domestic

This pool invests in the equities of small- to mid-sized companies and its objective is to exceed, net of external investment fees, the Russell 2500 Index over three- to five-year periods. Assets of this pool are managed by Aronson + Johnson + Ortiz, LP, Brandywine Global Investment Management, LLC, Wellington Management Company, LLP, and Westfield Capital Management. This pool holds equity securities of U.S. companies and money market funds which are rated AAA by Standard & Poor's and Aaa by Moody's.

International Qualified

Funds of this pool are invested in Silchester International Investors' Value Equity Group Trust. This pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East (EAFE) Index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. Only "qualified participants" (as defined by the *Internal Revenue Code*) may invest in this pool. This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2006, was \$420,053,600. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk.

International Nonqualified

Funds of this pool are invested in Silchester International Investors' Value Equity Trust. This pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's EAFE Index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. This pool exists for participants who are not "qualified" (as defined by the *Internal Revenue Code*). This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2006, was \$51,221,273. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk.

International Equity

This pool invests in the equities of international companies. AXA Rosenberg Investment Management, LLC, Brandes Investment Partners, LLC, LSV Asset Management, and Wasatch Advisors Inc. manage assets of this pool. The objective of the International Equity is to exceed, net of external investment management fees, Morgan Stanley Capital International's All Country World Free Ex US Index over three- to five-year periods. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies are as follows (expressed in thousands):

<u>Currency</u>	<u>Equity Securities</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$ 28,417	\$ 503	\$ 28,920
Brazil Cruzeiros Real	27,320	—	27,320
British Pound	104,895	211	105,106
Canadian Dollar	41,912	238	42,150
Danish Krone	5,385	583	5,968
Euro	158,816	2,046	160,862
Hong Kong Dollar	53,458	106	53,564
Hungarian Forint	1,119	1	1,120
Indian Rupee	4,517	—	4,517
Indonesian Rupiah	3,112	—	3,112
Israeli Shekel	14,745	—	14,745
Japanese Yen	152,318	1,081	153,399
Malaysian Ringgit	5,205	52	5,257
Mexican New Peso	2,733	16	2,749
New Taiwan Dollar	40,139	1,206	41,345
New Zealand Dollar	4,972	32	5,004
Norwegian Krone	16,073	24	16,097
Philippine Peso	8,714	—	8,714
Singapore Dollar	23,908	81	23,989
South African Rand	4,811	1	4,812
South Korean Won	42,993	—	42,993
Swedish Krona	21,268	339	21,607
Swiss Franc	32,688	646	33,334
Thailand Baht	<u>7,332</u>	<u>7</u>	<u>7,339</u>
Subtotal	<u>806,850</u>	<u>7,173</u>	<u>814,023</u>
United States Currency	<u>107,550</u>	<u>9</u>	<u>107,559</u>
Total Assets	<u>\$914,400</u>	<u>\$7,182</u>	<u>\$921,582</u>

Short-Term Fixed Income

The main objective of this pool is to maintain sufficient liquidity to fund withdrawals by the participant plans and to invest cash contributions until such time as the money can be transferred to other asset classes without sustaining capital losses. JP Morgan Investment Advisors, Inc. manages this pool. For purposes of evaluating investment returns, net of external investment management fees, this pools is compared to Salomon ninety-day Treasury-bill index plus fifteen basis points.

Credit Risk

The IMB limits the exposure to credit risk in the Short-Term Fixed Income pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income pool's investments (expressed in thousands):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value Prior to Repurchase Collateral Included</u>	<u>Reclass Repurchase Agreement to Actual Investment Types</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
	<u>Moody's</u>	<u>S&P</u>				
Repurchase Agreements	—	—	\$223,000	\$(223,000)	\$ —	—%
U.S. Treasury Bills	Aaa	AAA	74,891	—	74,891	18.6%
Commercial Paper	P1	A-1	63,853	—	63,853	15.8%
Agency Discount Notes	P1	A-1	32,707	96,901	129,608	32.2%
Agency Bonds	Aaa	AAA	2,975	95,465	98,440	24.8%
Money Market Funds	Aaa	AAA	514	—	514	0.1%
U.S. Treasury Note	Aaa	AAA	—	33,660	33,660	8.5%
Total Rated Investments			<u>\$397,940</u>	<u>\$ 3,026</u>	<u>\$400,966</u>	<u>100%</u>

Concentration of Credit Risk

West Virginia statutes prohibit the Short-Term Fixed Income pool from investing more than 5% of its assets in securities issued by a single issuer.

Interest Rate Risk

The weighted-average maturity of the investments of the Short-Term Fixed Income pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term pool (expressed in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (Days)</u>
Repurchase Agreements	\$223,000	3
U.S. Treasury Bills	74,891	13
Commercial Paper	63,853	17
Agency Discount Notes	32,707	64
Agency Bonds	2,975	168
Money Market Funds	<u>514</u>	1
Total Assets	<u>\$397,940</u>	13

Fixed Income

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Western Asset Management Company manages this pool.

Credit Risk

The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted-average credit ratings of the asset types in the Fixed Income pool (expressed in thousands):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value Prior to Repurchase Collateral Included</u>	<u>Reclass Repurchase Agreement to Actual Investment Types</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
	<u>Moody's</u>	<u>S&P</u>				
U.S. Treasury Bonds and Notes	Aaa	AAA	\$ 324,878	\$ —	\$ 324,878	15.1%
Corporate Bonds and Notes	Baa	BBB	363,865	—	363,865	16.9%
Agency Bonds	Aaa	AAA	12,736	10,506	23,242	1.1%
Corporate Asset Backed Securities	Aaa	AAA	90,536	—	90,536	4.2%
Repurchase Agreements			10,300	(10,300)	—	0.0%
Agency Discount Notes	P1	A-1	1,777	—	1,777	0.1%
Money Market Funds	Aaa	AAA	830	—	830	0.0%
U.S. Treasury Bills	Aaa	AAA	<u>39,717</u>	<u>—</u>	<u>39,717</u>	<u>1.9%</u>
Total Rated Investments			<u>844,639</u>	<u>206</u>	<u>844,845</u>	<u>39.3%</u>
Unrated: Commingled Investment Pool			1,303,551	—	1,303,551	60.6%
Unrated: Canada Treasury Bills			<u>2,567</u>	<u>—</u>	<u>2,567</u>	<u>0.1%</u>
Total Assets			<u>\$2,150,757</u>	<u>\$ 206</u>	<u>\$2,150,963</u>	<u>100%</u>

Interest Rate Risk

The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Fixed Income pools (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
U.S. Treasury Bonds and Notes	\$ 324,878	8.3
Corporate Bonds and Notes	363,865	6.6
Agency Bonds	12,736	6.1
Corporate Asset Backed Securities	90,536	8.3
Repurchase Agreements	10,300	0.0
Agency Discount Notes	1,777	0.2
Money Market Funds	830	0.0
U.S. Treasury Bills	39,717	0.2
Commingled Investment Pools	1,303,551	5.0
Canada Treasury Bills	<u>2,567</u>	0.2
Total Assets	<u>\$2,150,757</u>	5.8

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2006, the Fixed Income pool held \$90,536,055 of these securities. This represents approximately 4% of the value of the fixed income pools.

Fixed Income Qualified

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Barclays Global Investors manages this pool. Only “qualified participants” (as defined by the *Internal Revenue Code*) may invest in this pool.

This pool holds positions in institutional mutual funds with a combined value of \$980,311,054 at June 30, 2006, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.5 years.

Fixed Income Nonqualified

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Barclays Global Investors manages this pool. This pool exists for participants who are not “qualified” (as defined by the *Internal Revenue Code*).

This pool holds positions in institutional mutual funds with a combined value of \$369,891,016 at June 30, 2006, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.5 years.

Consolidated Fund

The Consolidated Fund is a statutory term for the collective investment of those monies currently needed to fund state governmental operations, participation by local governments, or those monies that are required by other statutory provisions to be invested in the Consolidated Fund. The following five investment pools comprise the Consolidated Fund.

Cash Liquidity

This pool consists of the operating funds of the State, funds held in trust by State agencies, and funds from local governments who desire the opportunity to invest with the State. Its purpose is to provide for the investment of all surplus funds and supply the daily cash needs of the State. The pool is co-managed by JP Morgan Asset Management and UBS Global Asset Management.

Credit Risk

The BTI limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

West Virginia

The following table provides information on the weighted-average credit ratings of the Cash Liquidity pool's investments (expressed in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Commercial Paper	P1	A-1	\$ 943,057	54.14%
U.S. Treasury Bills	Aaa	AAA	306,279	17.58%
Corporate Bonds and Notes	Aaa	AAA	61,992	3.56%
	Aa	AA	55,063	3.16%
	Aa	A	12,000	.69%
Certificates of Deposit	P1	A-1	99,000	5.68%
U.S. Agency Bonds	Aaa	AAA	43,663	2.51%
U.S. Agency Discount Notes	P1	A-1	93,851	5.39%
Money Market Funds	Aaa	AAA	758	0.04%
Repurchase Agreements (Underlying Securities):				
U.S. Treasury Notes	Aaa	AAA	73,000	4.19%
U.S. Agency Notes	Aaa	AAA	<u>29,339</u>	<u>1.69%</u>
Total Rated Investments			<u>1,718,002</u>	98.63%
Unrated: Certificate of Deposit			<u>23,800</u>	<u>1.37%</u>
Total Assets			<u>\$1,741,802</u>	<u>100%</u>

Interest Rate Risk

The overall weighted-average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities can not exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Cash Liquidity pool (expressed in thousands):

Security Type	Total Carrying Value	Primary Government	Investment Trust Funds	Agency Funds	Component Units	WAM (Days)
Commercial Paper	\$ 943,057	\$ 774,061	\$33,856	\$10,939	\$124,201	25
U.S. Treasury Bills	306,279	251,394	10,995	3,553	40,337	32
Corporate Bonds and Notes	129,055	105,928	4,633	1,497	16,997	77
Certificates of Deposit	122,800	100,794	4,409	1,424	16,173	105
U.S. Agency Bonds	43,663	35,839	1,568	506	5,750	208
Repurchase Agreements	102,339	84,000	3,674	1,187	13,478	3
U.S. Agency Discount Notes	93,851	77,033	3,369	1,089	12,360	89
Money Market Funds	<u>758</u>	<u>622</u>	<u>27</u>	<u>9</u>	<u>100</u>	1
Total Assets	<u>\$1,741,802</u>	<u>\$1,429,671</u>	<u>\$62,531</u>	<u>\$20,204</u>	<u>\$229,396</u>	42
Percentage of Ownership	100%	82.08%	3.59%	1.16%	13.17%	

Government Money Market

This pool consists of investors who wish to invest in a pool that restricts its investments to U.S. Government Obligations, U.S. Government Agency Obligations or repurchase agreements. The pool is managed by UBS Global Asset Management.

Credit Risk

The BTI limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U.S. Treasury issues, U.S. Government agency issues, money market funds investing in U.S. Treasury issues and U.S. Government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. Government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
U.S. Agency Bonds	Aaa	AAA	\$ 21,420	11.76%
U.S. Treasury Bills	Aaa	AAA	28,346	15.56%
U.S. Agency Discount Notes	P1	A-1	112,399	61.70%
Money Market Funds	Aaa	AAA	109	0.06%
Repurchase Agreements (Underlying Securities):				
U.S. Treasury Strips	Aaa	AAA	15,602	8.56%
U.S. Agency Bonds	Aaa	AAA	<u>4,298</u>	<u>2.36%</u>
Total Rated Investments			<u>\$182,174</u>	<u>100%</u>

Interest Rate Risk

The overall weighted-average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Government Money Market Pool (expressed in thousands):

<u>Security Type</u>	<u>Total Carrying Value</u>	<u>Primary Government</u>	<u>Investment Trust Funds</u>	<u>Component Units</u>	<u>WAM (Days)</u>
U.S. Agency Discount Notes	\$112,399	\$ 6,171	\$ 96,809	\$ 9,419	39
U.S. Agency Bonds	21,420	1,176	18,449	1,795	152
Repurchase Agreements	19,900	1,092	17,140	1,668	3
U.S. Treasury Bills	28,346	1,557	24,414	2,375	42
Money Market Funds	<u>109</u>	<u>6</u>	<u>94</u>	<u>9</u>	1
Total Assets	<u>\$182,174</u>	<u>\$10,002</u>	<u>\$156,906</u>	<u>\$15,266</u>	49
Percentage of Ownership	100%	5.49%	86.13%	8.38%	

West Virginia

Enhanced Yield

This pool consists of the operating funds of the State that are not immediately needed to fund the State's liquidity requirements. The pool is managed by Standish Mellon Asset Management.

Credit Risk

The BTI limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A- by Standard & Poor's (or it's equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's.

The following table provides information on the credit ratings of the Enhanced Yield Pool's investments (expressed in thousands):

Security Type	Credit Rating		Fair Value	Percent of Assets
	Moody's	S&P		
Corporate Asset Backed Securities	P1	A-1	\$ 46,963	17.70%
Corporate Bonds and Notes	Aaa	AAA	2,448	0.92%
	Aa	AA	3,790	1.43%
	Aa	A	15,660	5.90%
	A	AA	3,048	1.15%
	A	A	46,847	17.65%
U.S. Agency Bonds	Aaa	AAA	87,215	32.86%
U.S. Treasury Bills	Aaa	AAA	58,067	21.88%
Repurchase Agreements (Underlying Securities):				
U.S. Agency Mortgage Backed Securities	Aaa	AAA	<u>1,346</u>	<u>0.51%</u>
Total Rated Investments			<u>\$265,384</u>	<u>100%</u>

Interest Rate Risk

The overall weighted-average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities can not exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Enhanced Yield Pool (expressed in thousands):

Security Type	Total Carrying Value	Primary Government	Investment Trust Funds	Component Units	WAM (Days)
Corporate Bonds and Notes	\$ 71,793	\$ 57,585	22	\$14,186	588
U.S. Agency Bonds	87,215	69,955	26	17,234	594
U.S. Treasury Bills	58,067	46,576	17	11,474	894
Corporate Asset Backed Securities	46,963	37,669	14	9,280	688
Repurchase Agreements	<u>1,346</u>	<u>1,080</u>	<u>—</u>	<u>266</u>	3
Total Assets	<u>\$265,384</u>	<u>\$212,865</u>	<u>\$79</u>	<u>\$52,440</u>	672
Percentage of Ownership	100%	80.21%	0.03%	19.76%	

Loss Amortization

This pool was created to account for those participant claims on the general operating funds of the State that exceeded the underlying assets of the other pools. This excess of participant claims on net assets over underlying assets occurred as a result of the distribution of earnings to participants in various BTI investment pools, principally the Unrestricted Pool (predecessor to the Cash Liquidity Pool), in excess of the true investment income experience of the pools, principally in 1987 and 1988.

This pool holds a U.S. Treasury strip valued at \$145,943,000 that matures on August 15, 2011. The BTI's investment policy does not specifically address maturity restrictions as a means of managing its exposure to fair value losses in this pool arising from increasing interest rates. However, it is the intent of the BTI to hold this security to maturity. The following table is expressed in thousands:

Security Type	Fair Value	Interest Rate Risk			
		Less than 1	1 - 5	6 - 10	More than 10
Primary Government:					
U.S. Treasury Strip	\$145,943	\$—	\$—	\$145,943	\$—

Loans

This pool is comprised of loans made by the State. The \$1 unit price is utilized for accounting purposes only. The State is the sole participant in this pool. This pool primarily holds intergovernmental loans and an interest in a money market fund in the amount of \$20,928,000 with a weighted average maturity of one day which is rated AAA by Standard & Poor's and Aaa by Moody's. The loans are not rated by any nationally recognized statistical rating organization; however, as there is the potential for defaults, they are exposed to credit risk. For financial statement purposes the intergovernmental loans are reflected in the Advances to Component Units line on the Statement of Net Assets. The BTI addresses the credit risk by evaluating the need for and establishing a reserve for uncollectible loans.

The BTI also maintains pools for individual State agencies with specific investment needs. These pools are collectively referred to as Participant Directed Accounts, and include the following: Municipal Bond Commission, Lottery Defeasance, School Fund, Economic Development Authority Insurance (EDA Insurance), and EDA – American Woodmark (EDA – AW). Each agency is the sole owner of the investments in its pool and is responsible for the investment decisions in accordance with the legal restrictions applicable to those assets. The BTI serves as custodian of these pools and has no discretion over investment and financial decisions made for them.

Municipal Bond Commission

This account only holds securities issued by the U.S. Treasury or government agencies. The securities are purchased with specific maturities timed to match bond interest or principal payments.

The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Municipal Bond Commission Account arising from increasing interest rates. The following table provides information on the weighted average maturities for the various asset types in the Municipal Bond Commission Account (expressed in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (Days)</u>
U.S. Treasury Bills	\$ 459	77
U.S. Treasury Strips	7,657	1,952
U.S. Treasury Bonds and Notes	7,056	3,518
State and Local Government Securities	<u>11,578</u>	702
Total Assets	<u>\$26,750</u>	1,792

Lottery Defeasance

The Lottery Defeasance Account holds only U.S. Treasury securities and U.S. agency bonds and notes with maturities timed to match lottery winner payouts. It is the intent to hold these securities to maturity. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Lottery Defeasance Account arising from increasing interest rates. The following table provides information on the weighted average maturities for the various asset types in the Lottery Defeasance Account (expressed in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (Days)</u>
U.S. Treasury Bills	\$368	398
U.S. Treasury Bonds and Notes	<u>301</u>	200
Total Assets	<u>\$669</u>	309

School Fund

The School Fund Account holds an interest in a money market mutual fund valued at \$1,879,000 with a weighted average maturity of one day. The mutual fund is rated AAA by Standard & Poor's and Aaa by Moody's (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Governmental Activities:					
Money Market	\$1,879	\$1,879	\$—	\$—	\$—

EDA Insurance

This account holds a U.S. Treasury bill in the amount of \$450,000 that matured on December 14, 2006. The Economic Development Authority's investment policy limits this account to holding only U.S. Treasury securities with six-month maturities (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Component Unit Activities:					
U.S. Treasury Bill	\$450	\$450	\$—	\$—	\$—

EDA-AW

This account holds a U.S. Treasury bond valued at \$1,594,000 that matures on August 15, 2023. The Economic Development Authority's investment policy limits this account to holding only U.S. Treasury securities with twenty-year maturities at time of purchase (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Component Unit Activities:					
U.S. Treasury Bond	\$1,594	\$—	\$—	\$—	\$1,594

West Virginia

This schedule reconciles disclosed investment values to net asset values of the pools as reflected in the accompanying financial statements, at IMB and BTI at June 30, 2006, (expressed in thousands):

<u>Pool Name</u>	<u>Disclosed Value</u>	<u>Pool Receivables/ (Payables)</u>	<u>Net Asset Values</u>
Large Cap Domestic	\$ 1,726,196	\$ 1,597	\$ 1,727,793
Non-Large Cap Domestic	998,310	2,421	1,000,731
International Qualified	420,054	(210)	419,844
International Nonqualified	51,221	(1)	51,220
International Equity	914,400	6,427	920,827
Short-Term Fixed Income	397,940	20	397,960
Fixed Income	2,150,757	(51,586)	2,099,171
Fixed Income Qualified	980,311	(66)	980,245
Fixed Income Nonqualified	369,891	(38)	369,853
Cash Liquidity	1,741,802	(22,179)	1,719,623
Government Money Market	182,174	(4,867)	177,307
Enhanced Yield	265,384	1,161	266,545
Loss Amortization	145,943	—	145,943
Loans	139,194	337	139,531
Municipal Bond Commission	26,750	273	27,023
Lottery Defeasance	669	—	669
School Fund	1,879	7	1,886
EDA Insurance	450	—	450
EDA - AW	<u>1,594</u>	<u>34</u>	<u>1,628</u>
Total Pooled Investments	<u>10,514,919</u>	<u>(66,670)</u>	<u>10,448,249</u>
Less EDA	121,944	—	121,944
Less MBC	26,750	273	27,023
Less CD's	<u>122,800</u>	<u>—</u>	<u>122,800</u>
Total for Disclosure	<u>\$10,243,425</u>	<u>\$ (66,943)</u>	<u>\$10,176,482</u>

Outside Investments

In addition to the amounts invested with the IMB above, certain funds are permitted to invest bond proceeds with a third-party trustee named in the bond indenture. The following information relates to these outside investments.

Credit Risk

The following table provides information on the credit ratings of the State's third-party trustee investments (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	
		<u>S&P</u>	<u>Moody's</u>
Primary Government:			
Commercial Paper	\$ 2,898	A-1+	P-1
Guaranteed Investment Contracts	497	AA	Aa2
	151,736	AA-	Aa2
	7,143	AAa	Aa3
	122,332	AAA	Aaa
	94,646	Unrated	Unrated
Money Market/Mutual Funds	22,822	AA	Unrated
	4,042	AAA	Aaa
	81,321	AAAam	Aaa
	1,387	AAAam-G	Aaa
Mutual Bond Funds	169,328	AAAam	Aaa
Repurchase Agreements	6,000	Unrated	Unrated
U.S. Government and Agency Obligations	8,990	AAA	Aaa
	<u>36,003</u>	AAAam	Aaa
	<u>\$ 709,145</u>		
Pension and Private Purpose Trust Funds:			
Money Market/Mutual Funds	<u>\$1,500,234</u>	Unrated	Unrated
Component Units:			
Common and Preferred Stocks	\$ 96,587	Unrated	Unrated
Corporate Bonds	3,973	AA+	AA+
	3,973	AAA	Aaa
	1,257	BBB	Baa
	31,881	Unrated	Unrated
Guaranteed Investment Contracts	110,176	AAA	Aaa
	76,295	Unrated	Unrated
Money Market/Mutual Funds	40,341	AAAam	Aaa
	572	AAAam-G	Aaa
	113	Unrated	Aaa
	41,711	Unrated	Unrated
Mortgages Held for Investment	25,333	Unrated	Unrated
Other Investments	19,356	Unrated	Unrated
Repurchase Agreements	15,626	AAA	Aaa
	146,165	AAA	aaa
	25,455	Unrated	Unrated
U.S. Government and Agency Obligations	78,272	AAA	aaa
	33,233	AAA	Aaa
	<u>30,857</u>	Unrated	Unrated
	<u>\$ 781,176</u>		

West Virginia

Concentration of Credit Risk

As of June 30, 2006, the State had investment balances with the following issuers which are greater than or equal to 5% of the respective third-party trustee investment balance (expressed in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Issuer</u>	<u>Percentage of Concentration</u>
Primary Government:			
Guaranteed Investment Contracts	\$ 86,155	Financial Security Assurance Capital Management Services, LLC	12.1%
	170,994	Citizens Bank of Pennsylvania	24.1%
	94,646	United Bank	13.3%
Component Units:			
Common and Preferred Stocks	88,105	\$76,139 of the \$88,105 is invested by the Foundations at the Higher Education campuses which are reported under FASB and the information is not available	11.3%
Guaranteed Investment Contracts	110,176	FSA Capital Management Services LLC	14.1%
	76,295	United Bank, Inc./Citigroup Global Markets, Inc.	9.8%
Repurchase Agreements	146,165	Federal Agency Obligations (Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank, Freddie Mac)	18.7%
U.S. Government & Agency Obligations	73,959	Federal Agency Obligations (Fannie Mae, Federal Farm Credit Bank, Federal Home Loan Bank, Freddie Mac)	10.0%

Interest Rate Risk

The following table provides information on the interest rate risk of the State's third-party trustee investments (expressed in thousands):

Security Type	Fair Value	Interest Rate Risk			
		Less than 1	1 - 5	6 - 10	More than 10
Primary Government:					
U.S. Government & Agency Obligations	\$ 44,993	\$ 44,993	\$ —	\$ —	\$ —
Commercial Paper	2,898	2,898	—	—	—
Repurchase Agreements	6,000	—	—	6,000	—
Guaranteed Investment Contracts	376,354	112,580	241,370	2,917	19,487
Money Market/Mutual Funds	109,572	109,572	—	—	—
Mutual Bond Funds	<u>169,328</u>	<u>169,328</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Primary Government	<u>709,145</u>	<u>439,371</u>	<u>241,370</u>	<u>8,917</u>	<u>19,487</u>
Pension & Private Purpose Trust Funds:					
Money Market/Mutual Funds	<u>1,500,234</u>	<u>1,500,234</u>	<u>—</u>	<u>—</u>	<u>—</u>
Component Units:					
U.S. Government & Agency Obligations	142,362	33,881	38,644	19,798	50,039
Corporate Bonds	41,084	33,502	4,431	2,125	1,026
Common & Preferred Stocks	96,587	88,105	—	—	8,482
Repurchase Agreements	187,246	156,998	5,348	11,571	13,329
Guaranteed Investment Contracts	186,471	76,295	110,176	—	—
Money Market/Mutual Funds	82,737	82,546	191	—	—
Mortgages Held for Investment	25,333	—	—	—	25,333
Other Investments	<u>19,356</u>	<u>19,356</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Component Units	<u>781,176</u>	<u>490,683</u>	<u>158,790</u>	<u>33,494</u>	<u>98,209</u>
Total Outside Investments	<u>\$2,990,555</u>	<u>\$2,430,288</u>	<u>\$400,160</u>	<u>\$42,411</u>	<u>\$117,696</u>

Reconciliation to Financial Statements

The following schedule reconciles the amount disclosed as deposits and investments included in this footnote to cash and cash equivalents, investments and restricted cash and investments in the Statement of Net Assets at June 30, 2006, (expressed in thousands):

Deposits:

Cash and Cash Equivalents as Reported on the Statement of Net Assets	\$ 3,681,253
Cash and Cash Equivalents as Reported on the Statement of Fiduciary Net Assets	274,644
Add:	
Restricted Cash and Cash Equivalents as Reported	203,273
Less:	
Cash Equivalents and Restricted Cash Disclosed as Investments	(3,638,642)
Cash with U.S. Treasury for Unemployment Programs	<u>(239,978)</u>
Reported Value of Deposits as Disclosed in this Footnote	<u>\$ 280,550</u>

Investments:

Investments as Reported on the Statement of Net Assets	\$ 1,393,819
Investments as Reported on the Statement of Fiduciary Net Assets	7,921,768
Add:	
Restricted Investments as Reported	212,400
Cash Equivalents and Restricted Cash Disclosed as Investments	3,638,642
Accrued Interest Disclosed as Investments	<u>408</u>
Reported Value of Investments as Disclosed in this Footnote	<u>\$13,167,037</u>



NOTE 5

RECEIVABLES

(Expressed in Thousands)

Receivables

Receivables at June 30, 2006, consisted of the following:

	Governmental Funds				Total Governmental Receivables
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental	
Taxes	\$322,581	\$ 64,159	\$ —	\$ —	\$386,740
Accounts	110,094	95,754	30	7,866	213,744
Loans	27,676	—	319,991	—	347,667
Surplus Note	—	—	—	—	—
Accrued Interest	5,211	—	1,137	1,723	8,071
Total Receivables	465,562	159,913	321,158	9,589	956,222
Allowance for Doubtful Accounts	(31,335)	—	—	(1,195)	(32,530)
Receivables, Net	<u>\$434,227</u>	<u>\$159,913</u>	<u>\$321,158</u>	<u>\$ 8,394</u>	<u>\$923,692</u>
As reported on the Fund					
Financial Statements:					
Current Receivables, Net	\$434,227	\$159,913	\$321,158	\$ 8,394	\$923,692
Noncurrent Receivables, Net	—	—	—	—	—
Receivables, Net	<u>\$434,227</u>	<u>\$159,913</u>	<u>\$321,158</u>	<u>\$ 8,394</u>	<u>\$923,692</u>
Fiduciary Funds					
	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds		
Accounts	\$ —	\$ —	\$ —		
Loans	10,013	—	—		
Leases	—	—	—		
Contributions	29,526	5,861	—		
Accrued Interest	—	—	92		
Other	—	—	5,000		
Total Receivables	39,539	5,861	5,092		
Allowance for Doubtful Accounts	—	—	—		
Receivables, Net	<u>\$39,539</u>	<u>\$5,861</u>	<u>\$5,092</u>		
As reported on the Fund					
Financial Statements:					
Current Receivables, Net	\$39,539	\$5,861	\$5,092		
Noncurrent Receivables, Net	—	—	—		
Receivables, Net	<u>\$39,539</u>	<u>\$5,861</u>	<u>\$5,092</u>		

Enterprise Funds

West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation	Unemployment Compensation	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise	Total Enterprise	Internal Service Funds
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
24,789	295	53,787	35,372	29,740	1,479	6,830	152,292	4,483
—	377,132	—	—	—	—	37,187	414,319	—
—	—	200,000	—	—	—	—	200,000	—
—	—	—	—	—	—	21	21	16
24,789	377,427	253,787	35,372	29,740	1,479	44,038	766,632	4,499
—	—	—	—	(3,660)	(393)	—	(4,053)	—
<u>\$24,789</u>	<u>\$377,427</u>	<u>\$253,787</u>	<u>\$35,372</u>	<u>\$26,080</u>	<u>\$1,086</u>	<u>\$44,038</u>	<u>\$762,579</u>	<u>\$4,499</u>
\$24,789	\$ 19,647	\$ 53,787	\$35,372	\$26,080	\$ 714	\$ 3,473	\$163,862	\$4,499
—	357,780	200,000	—	—	372	40,565	598,717	—
<u>\$24,789</u>	<u>\$377,427</u>	<u>\$253,787</u>	<u>\$35,372</u>	<u>\$26,080</u>	<u>\$1,086</u>	<u>\$44,038</u>	<u>\$762,579</u>	<u>\$4,499</u>

Discretely Presented Component Units

Economic Development Authority	Housing Development Fund	Parkways, Economic Development & Tourism Authority	Water Development Authority	Higher Education	Regional Jail	Other Component Units	Total Discretely Presented Component Units
\$ —	\$851,890	\$1,445	\$249,980	\$ 72,225	\$21,123	\$ 932	\$1,197,595
138,968	45,146	—	16,545	63,173	—	2,184	266,016
19,457	—	—	—	—	—	—	19,457
—	—	—	—	—	—	—	—
2,705	4,857	250	—	—	—	—	7,812
—	—	—	—	—	—	—	—
161,130	901,893	1,695	266,525	135,398	21,123	3,116	1,490,880
(4,800)	(43,501)	—	—	(18,101)	—	—	(66,402)
<u>\$156,330</u>	<u>\$858,392</u>	<u>\$1,695</u>	<u>\$266,525</u>	<u>\$117,297</u>	<u>\$21,123</u>	<u>\$3,116</u>	<u>\$1,424,478</u>
\$ 21,664	\$ 5,522	\$1,695	\$ 8,935	\$ 69,947	\$21,123	\$3,116	\$ 132,002
134,666	852,870	—	257,590	47,350	—	—	1,292,476
<u>\$156,330</u>	<u>\$858,392</u>	<u>\$1,695</u>	<u>\$266,525</u>	<u>\$117,297</u>	<u>\$21,123</u>	<u>\$3,116</u>	<u>\$1,424,478</u>

Taxes Receivable

Taxes receivable at June 30, 2006, consisted of the following:

	<u>Governmental Funds</u>		
	<u>General</u>	<u>Transportation</u>	<u>Total</u>
Taxes Receivable:			
Consumer Sales	\$ 93,149	\$ —	\$ 93,149
Personal Income	100,711	—	100,711
Severance	49,641	—	49,641
Business and Occupation	14,837	—	14,837
Automobile Privilege Taxes	—	26,276	26,276
Gasoline Excise	—	34,714	34,714
Registration Fees	—	3,169	3,169
Insurance	32,408	—	32,408
Corporate Net Income	17,818	—	17,818
Other	<u>14,017</u>	<u>—</u>	<u>14,017</u>
Total	<u>\$322,581</u>	<u>\$64,159</u>	<u>\$386,740</u>

Leases Receivable

The Economic Development Authority has entered into long-term direct financing lease agreements with commercial entities for land, buildings, and equipment. A schedule of future lease amounts due to the Economic Development Authority is as follows:

<u>Year Ended June 30</u>	<u>Direct Financing Leases Amounts Due</u>
2007	\$ 3,160
2008	2,093
2009	2,093
2010	7,001
2011	662
2012-2025	<u>8,615</u>
Total Minimum Amount Due	23,624
Less Amount Representing Interest	<u>(4,167)</u>
Present Value of Minimum Lease Amount Due	<u>\$19,457</u>

Physicians' Mutual Insurance Company Loan

Pursuant to the West Virginia Physicians' Mutual Insurance Company (WVPMIC) Act, the Legislature authorized the loan of \$24 million from the West Virginia Tobacco Medical Trust Fund, now the Revenue Shortfall Reserve Fund - Part B, solely for the company's use as initial capital and surplus. A noncurrent receivable for the \$24 million is recorded in the general fund. There is a low interest rate on the loan computed of simple interest of 1.425%, which began accruing on January 1, 2005. The principal amount shall be paid on or before July 31, 2034. However, no payment of accrued interest and/or repayment of principal shall be due, payable, or paid by the WVPMIC, in whole or in part unless certain stability criteria are met. To date, the WVPMIC has made interest but no principal payments. The Insurance Commission is providing specific insurance taxes as repayment to the Revenue Shortfall Reserve Fund - Part B, until such time as the WVPMIC is able to repay the loan.

BrickStreet Mutual Insurance Company Surplus Note

In accordance with the provisions set forth in §23-2C-24 (a) of the West Virginia Code, a surplus note agreement between the State of West Virginia and the newly formed employers' mutual insurance company, BrickStreet Mutual Insurance Company, has been established as of January 1, 2006. For value received, BrickStreet Mutual Insurance Company will repay the State of West Virginia the principle sum of \$200 million dollars, plus interest and reasonable costs of collection of any overdue payment by the maturity date of the note, which is June 30, 2016. The noncurrent receivable of \$200 million is included in the financial statements of the Workers' Compensation Fund. The purpose of the surplus note is to provide initial surplus to the issuer until such time as adequate retained surplus is earned or alternative non-governmental sources of capital are available to allow the issuer to operate as a commercially sound, independent provider of workers' compensation insurance in the State of West Virginia, within a competitive environment. BrickStreet Mutual Insurance Company may repay all or any part of the principal, subject to the approval of the Insurance Commissioner, at any time without penalty or premium.

From the effective date of the note until the earlier of (1) the date on which the note is repaid in full; or (2) January 1, 2009, the note shall bear interest at one and one-half percent (1.5%). If the note has not been repaid by January 1, 2009, then from January 1, 2009, until the date on which the note is repaid in full, unpaid amounts under the note shall bear interest at a fluctuating rate per annum that is equal to the Prime Rate of interest for the period in question. The repayment of the principal of the surplus note shall be subject to the prior approval of the Insurance Commissioner. No payments have been made to date. See Note 14 for more information on the privatization of the workers' compensation function.

NOTE 6

INTERFUND BALANCES

The following table details the interfund balances and activity as of and for the year ended June 30, 2006, (expressed in thousands):

Due To	Due From			
	Governmental			
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Governmental Funds:				
General	\$ —	\$ 282	\$ —	\$137
Transportation	296	—	—	3
Other Nonmajor Governmental	134	—	—	—
Total Governmental Funds	<u>430</u>	<u>282</u>	<u>—</u>	<u>140</u>
Proprietary Funds:				
West Virginia Lottery	—	—	—	—
Water Pollution Control Revolving Fund	—	—	—	24
Workers' Compensation Fund	285	—	—	—
Unemployment Compensation	196	17	—	8
Public Employees' Insurance Agency	2,227	1,223	—	3
Other Nonmajor Proprietary	23	—	—	—
Internal Service Funds	4,116	305	—	385
Total Proprietary Funds	<u>6,847</u>	<u>1,545</u>	<u>—</u>	<u>420</u>
Pension Trust Fund	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>
Discretely Presented Component Units:				
Major:				
Water Development Authority	—	—	82	—
Higher Education	15,361	156	—	39
Nonmajor:				
Educational Broadcasting	—	—	—	—
State Rail Authority	844	—	—	—
Total Discretely Presented Component Units	<u>16,205</u>	<u>156</u>	<u>82</u>	<u>39</u>
Total	<u>\$23,489</u>	<u>\$1,983</u>	<u>\$82</u>	<u>\$599</u>

The general fund Due to Other Funds includes \$4,116,000 to the Internal Service Funds which is made up of \$148,000 for building rent, \$3,242,000 for computer services, \$406,000 for telecommunications, and \$320,000 for vehicle rentals; \$2,227,000 to Public Employees' Insurance Agency for health insurance, and \$15,361,000 to Higher Education for educational programs. Also, the Lottery has a Due To Fiduciary Funds of \$69,042,000 to reduce the unfunded liability of the Teachers' Retirement Fund.

Due From									
Proprietary									
West Virginia Lottery	Water Pollution Revolving Fund	Workers' Compensation Fund	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Nonmajor	Internal Service Funds	Pension Trust Funds	Discretely Presented Component Units	Total
\$ 77,635	\$ —	\$ 1	\$27,793	\$ —	\$14	\$ 11	\$ 3	\$2,139	\$108,015
—	—	—	504	—	—	—	—	10	813
<u>1,000</u>	<u>16</u>	<u>—</u>	<u>98</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,248</u>
<u>78,635</u>	<u>16</u>	<u>1</u>	<u>28,395</u>	<u>—</u>	<u>14</u>	<u>11</u>	<u>3</u>	<u>2,149</u>	<u>110,076</u>
—	—	—	1	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	24
—	—	—	—	—	—	—	—	—	285
3	—	37	34	—	—	—	—	126	421
—	—	92	—	—	2	28	—	279	3,854
—	—	—	—	—	—	—	—	—	23
<u>174</u>	<u>—</u>	<u>3</u>	<u>148</u>	<u>9</u>	<u>16</u>	<u>120</u>	<u>93</u>	<u>503</u>	<u>5,872</u>
<u>177</u>	<u>—</u>	<u>132</u>	<u>183</u>	<u>9</u>	<u>18</u>	<u>148</u>	<u>93</u>	<u>908</u>	<u>10,480</u>
<u>69,042</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>364</u>	<u>69,413</u>
—	19	—	—	—	—	—	—	—	101
—	—	49	197	12	—	201	—	—	16,015
142	—	—	3	—	—	—	—	—	145
<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>845</u>
<u>142</u>	<u>19</u>	<u>49</u>	<u>201</u>	<u>12</u>	<u>—</u>	<u>201</u>	<u>—</u>	<u>—</u>	<u>17,106</u>
<u>\$147,996</u>	<u>\$35</u>	<u>\$182</u>	<u>\$28,779</u>	<u>\$21</u>	<u>\$32</u>	<u>\$360</u>	<u>\$96</u>	<u>\$3,421</u>	<u>\$207,075</u>

The general fund Due from Other Funds includes \$27,793,000 from Public Employees' Insurance Agency excess reserves. \$77,635,000 from the Lottery was appropriated by the Legislature to Higher Education (\$11 million), Natural Resources (\$14 million), Senior Services (\$11 million), the School Construction Fund (\$8.5 million), the Tax Reduction and Federal Funding Increased Compliance (TRAFFIC) fund (\$20 million) and various other small agencies.

NOTE 7

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following (expressed in thousands):

<u>Transfers To</u>	<u>Transfers From</u>			
	<u>Governmental</u>			
	<u>General</u>	<u>Transportation</u>	<u>West Virginia Infrastructure and Jobs Development Council</u>	<u>Other Nonmajor</u>
Governmental Funds:				
General	\$ —	\$ —	\$ —	\$266,861
Transportation	3,904	—	—	—
West Virginia Infrastructure and Jobs Development Council	14,000	—	—	—
Other Nonmajor Governmental	<u>133,912</u>	<u>6,772</u>	<u>2,479</u>	<u>2,079</u>
Total Governmental Funds	<u>151,816</u>	<u>6,772</u>	<u>2,479</u>	<u>268,940</u>
Proprietary Funds:				
Water Pollution Control Revolving Fund	—	—	3,368	—
Workers' Compensation Fund	—	—	—	7,062
PEIA	4,887	—	—	—
Other Nonmajor Proprietary	8,515	—	1,661	27
Internal Service Funds	<u>1,663</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Proprietary Funds	<u>15,065</u>	<u>—</u>	<u>5,029</u>	<u>7,089</u>
Total	<u>\$166,881</u>	<u>\$6,772</u>	<u>\$7,508</u>	<u>\$276,029</u>

Recent legislation abolished the Tobacco Settlement Medical Trust Fund, resulting in a transfer of \$255.7 million to the General Fund. The West Virginia Lottery transferred, as mandated by State Code, \$19 million to the School Building Authority for capital grants and \$18 million for bond debt service, \$40 million to the West Virginia Infrastructure and Jobs Development Council, and \$299.6 million to the general fund. The general fund transferred \$23.3 million to the School Building Authority for bond debt service and \$32.2 million for capital grants. The general fund also transferred \$24 million to the West Virginia Infrastructure and Jobs Development Council and \$21.3 million to the Economic Development Project Fund for bond debt service. The PEIA's reserve levels in fiscal year 2006 were beyond the amount allowed by State Code, requiring a transfer of \$27.7 million to the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

Transfers From

Proprietary

<u>West Virginia Lottery</u>	<u>Workers' Compensation</u>	<u>Unemployment Compensation</u>	<u>PEIA</u>	<u>Other Nonmajor</u>	<u>Internal Service Funds</u>	<u>Total</u>
\$299,597	\$ —	\$ —	\$27,680	\$11,509	\$1,430	\$607,077
11,000	—	—	—	—	—	14,904
40,000	—	—	—	—	—	54,000
<u>46,993</u>	<u>1,219</u>	<u>5,768</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>199,222</u>
<u>397,590</u>	<u>1,219</u>	<u>5,768</u>	<u>27,680</u>	<u>11,509</u>	<u>1,430</u>	<u>875,203</u>
—	—	—	—	—	—	3,368
11,000	—	—	—	—	—	18,062
—	—	—	—	—	—	4,887
—	—	—	—	—	—	10,203
<u>13,451</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,114</u>
<u>24,451</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,634</u>
<u>\$422,041</u>	<u>\$1,219</u>	<u>\$5,768</u>	<u>\$27,680</u>	<u>\$11,509</u>	<u>\$1,430</u>	<u>\$926,837</u>

Not detailed in the table above, \$7 million in capital assets were transferred from Workers' Compensation, a proprietary fund that records capital assets on the balance sheet, to the Insurance Commission, which is a special revenue fund. The Insurance Commission, on the nonmajor special revenue statements, does not have a corresponding transfer in for the capital assets since the special revenue fund would only record the capital assets in the government-wide statements.

NOTE 8

RESTRICTED ASSETS

Restricted assets are held by special revenue funds, enterprise funds, internal service funds, and discretely presented component units, primarily for the repayment of future long-term obligations and benefits payments. The restricted assets, composed of cash, investments, and other similar assets at June 30, 2006, are as follows (expressed in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Other</u>	<u>Totals</u>
Special Revenue:				
Environmental Programs	\$ 1,687	\$ —	\$ —	\$ 1,687
Enterprise:				
West Virginia Lottery	20,000	669	—	20,669
Board of Risk and Insurance Management	<u>7,794</u>	<u>21,143</u>	<u>84,676</u>	<u>113,613</u>
	<u>27,794</u>	<u>21,812</u>	<u>84,676</u>	<u>134,282</u>
Internal Service:				
State Building Fund	37,350	—	—	37,350
Travel Management	<u>235</u>	<u>—</u>	<u>—</u>	<u>235</u>
	<u>37,585</u>	<u>—</u>	<u>—</u>	<u>37,585</u>
Discretely Presented Component Units:				
Economic Development Authority	12,299	—	—	12,299
Housing Development Fund	109,550	137,365	823,652	1,070,567
Parkways, Economic Development, and Tourism Authority	6,031	37,597	—	43,628
Water Development Authority	2,105	15,626	249,980	267,711
Regional Jail Authority	268	—	—	268
Educational Broadcasting Authority	—	—	351	351
West Virginia State Rail Authority	572	—	—	572
Solid Waste Management Board	2,867	—	1,461	4,328
Racing Commission	<u>2,515</u>	<u>—</u>	<u>—</u>	<u>2,515</u>
	<u>136,207</u>	<u>190,588</u>	<u>1,075,444</u>	<u>1,402,239</u>
Total	<u>\$203,273</u>	<u>\$212,400</u>	<u>\$1,160,120</u>	<u>\$1,575,793</u>

Special Revenue Funds

Environmental Programs has restricted cash held in trust “to protect human health and the environment, in accordance with the terms of the State and Federal Consent Decrees...”

Enterprise Funds

The West Virginia Lottery's assets are restricted to pay the deferred prize claims awarded on an annuity basis and for the design and construction of a new Lottery building. The Board of Risk and Insurance Management's (BRIM) cash and investment assets include funds to provide mine subsidence, medical malpractice, and general liability insurance coverage. BRIM's other restricted assets of \$84.3 million are advance deposits with insurance companies and \$372,000 in receivables.

Internal Service Funds

The State Building Fund's restricted assets are held in trust primarily for the costs of asbestos removal and other capital projects. Travel Management Fund's restricted assets are held in escrow for capital outlay.

Discretely Presented Component Units

The Economic Development Authority's assets are restricted to provide assurance that adequate amounts will be available to repay notes secured by the real estate being leased and to guarantee portions of certain loans made for economic development purposes. The Housing Development Fund's cash and cash equivalents assets are restricted on behalf of mortgagors and for payments collected on mortgages for which the fund acts as servicer only. The investments are primarily collateralized repurchase/investment agreements and United States government and agency obligations with maturities greater than 90 days to meet the requirements of bond resolutions. Other restricted assets for the Housing Development Fund of \$824 million include federal program receivables and foreclosed properties from defaulted federal program loans. The Parkways, Economic Development, and Tourism Authority's assets are restricted to be used for construction, turnpike maintenance and operation, and debt service. The cash and investment assets of the Water Development Authority are restricted as part of applicable bond covenants and the other restricted assets are \$250 million restricted for revenue bonds receivable net of unamortized discount and accrued interest receivable. The Regional Jail and Correctional Facility Authority's assets are restricted because of a safekeeping arrangement with inmates. The Educational Broadcasting Authority's (EBA) cash is restricted in a charitable trust allowing the use of part of the interest to benefit the EBA. The West Virginia State Rail Authority's assets are restricted for debt service payments. The Solid Waste Management Board's assets are restricted because their use is limited by applicable repayment agreements. The West Virginia Racing Commission's cash is restricted for the unclaimed winning tickets and other trust holdings which are mandated by West Virginia State Code.

NOTE 9

CAPITAL ASSETS

Governmental Activities

(Expressed in Thousands)

	Beginning Balance, Restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 862,580	\$ 36,502	\$ (455)	\$ 898,627
Construction in Progress	<u>1,050,269</u>	<u>567,409</u>	<u>(367,842)</u>	<u>1,249,836</u>
Total Capital Assets, Not Being Depreciated	<u>1,912,849</u>	<u>603,911</u>	<u>(368,297)</u>	<u>2,148,463</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	766,910	89,523	(308)	856,125
Equipment	307,705	46,642	(23,209)	331,138
Infrastructure	7,943,555	231,493	—	8,175,048
Library Holdings	14,994	140	—	15,134
Land Improvements	<u>11,535</u>	<u>1,714</u>	<u>(288)</u>	<u>12,961</u>
Total Capital Assets, Being Depreciated	<u>9,044,699</u>	<u>369,512</u>	<u>(23,805)</u>	<u>9,390,406</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(288,976)	(19,607)	248	(308,335)
Equipment	(229,187)	(27,073)	15,850	(240,410)
Infrastructure	(3,092,412)	(252,010)	—	(3,344,422)
Library Holdings	(14,337)	(461)	—	(14,798)
Land Improvements	<u>(4,238)</u>	<u>(781)</u>	<u>—</u>	<u>(5,019)</u>
Total Accumulated Depreciation	<u>(3,629,150)</u>	<u>(299,932)</u>	<u>16,098</u>	<u>(3,912,984)</u>
Total Capital Assets Being Depreciated, Net	<u>5,415,549</u>	<u>69,580</u>	<u>(7,707)</u>	<u>5,477,422</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,328,398</u>	<u>\$ 673,491</u>	<u>\$(376,004)</u>	<u>\$ 7,625,885</u>

Depreciation expense was charged to functions as follows:

Legislative	\$ 23
Judicial	567
Executive	386
Administration	10,154
Commerce	5,312
Environmental Protection	362
Employment Programs	144
Education	745
Health and Human Resources	2,779
Military Affairs and Public Safety	7,238
Revenue	3,585
Transportation	268,243
Regulatory Boards and Commissions	<u>394</u>
Total Governmental Activities Depreciation Expense	<u>\$299,932</u>

Business-type Activities

(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ <u>611</u>	\$ —	\$ —	\$ <u>611</u>
Total Capital Assets, Not Being Depreciated	<u>611</u>	<u>—</u>	<u>—</u>	<u>611</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,762	—	—	2,762
Equipment	<u>20,308</u>	<u>144</u>	<u>(8,080)</u>	<u>12,372</u>
Total Capital Assets, Being Depreciated	<u>23,070</u>	<u>144</u>	<u>(8,080)</u>	<u>15,134</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,261)	(130)	—	(1,391)
Equipment	<u>(13,059)</u>	<u>(1,366)</u>	<u>2,846</u>	<u>(11,579)</u>
Total Accumulated Depreciation	<u>(14,320)</u>	<u>(1,496)</u>	<u>2,846</u>	<u>(12,970)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,750</u>	<u>(1,352)</u>	<u>(5,234)</u>	<u>2,164</u>
Business-type Activities Capital Assets, Net	<u>\$ 9,361</u>	<u>\$(1,352)</u>	<u>\$(5,234)</u>	<u>\$ 2,775</u>

Depreciation expense was charged to functions as follows:

West Virginia Lottery	\$ 1,351
Public Employees' Insurance Agency	20
Alcohol Beverage Control Administration	<u>125</u>
Total Business-type Activities Depreciation Expense	<u>\$ 1,496</u>

Discretely Presented Component Units

(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Discrete Component Unit Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 127,824	\$ 18,222	\$ (1,177)	\$ 144,869
Construction in Progress	<u>191,536</u>	<u>182,213</u>	<u>(87,838)</u>	<u>285,911</u>
Total Capital Assets, Not Being Depreciated	<u>319,360</u>	<u>200,435</u>	<u>(89,015)</u>	<u>430,780</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,594,386	98,648	(26,103)	1,666,931
Equipment	386,980	33,780	(21,883)	398,877
Infrastructure	1,017,456	26,392	(1,254)	1,042,594
Library Holdings	113,914	7,248	(958)	120,204
Land Improvements	<u>21,754</u>	<u>3,019</u>	<u>(83)</u>	<u>24,690</u>
Total Capital Assets, Being Depreciated	<u>3,134,490</u>	<u>169,087</u>	<u>(50,281)</u>	<u>3,253,296</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(488,353)	(37,891)	4,373	(521,871)
Equipment	(266,893)	(30,713)	19,845	(277,761)
Infrastructure	(525,214)	(35,558)	17	(560,755)
Library Holdings	(90,194)	(6,659)	951	(95,902)
Land Improvements	<u>(10,517)</u>	<u>(1,546)</u>	<u>12</u>	<u>(12,051)</u>
Total Accumulated Depreciation	<u>(1,381,171)</u>	<u>(112,367)</u>	<u>25,198</u>	<u>(1,468,340)</u>
Total Capital Assets Being Depreciated, Net	<u>1,753,319</u>	<u>56,720</u>	<u>(25,083)</u>	<u>1,784,956</u>
Discrete Component Unit Activities				
Capital Assets, Net	<u>\$ 2,072,679</u>	<u>\$ 257,155</u>	<u>\$(114,098)</u>	<u>\$ 2,215,736</u>

Depreciation expense was charged to Discrete Component Units as follows:

Economic Development Authority	\$ 2,215
Parkways, Economic Development, and Tourism Authority	29,877
Water Development Authority	35
Higher Education	71,339
Educational Broadcasting Authority	2,376
West Virginia State Rail Authority	1,249
Solid Waste Management Board	9
Regional Jail Authority	5,144
Racing Commission	3
Public Defenders Corporation	<u>120</u>
Total Discrete Component Unit Depreciation Expense	<u>\$112,367</u>

NOTE 10

LONG-TERM OBLIGATIONS

Primary Government:

Long-term obligations at June 30, 2006, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Balance June 30, 2005	Additions	Reductions	Other Changes	Balance June 30, 2006	Amount Due Within One Year
Governmental Activities						
General Obligation Bonds:						
Transportation	\$ 467,915	\$ —	\$ (19,920)	\$ —	\$ 447,995	\$ 18,150
Premium/(Discount)	<u>32,086</u>	<u>—</u>	<u>(2,072)</u>	<u>—</u>	<u>30,014</u>	<u>2,002</u>
Total Transportation	500,001	—	(21,992)	—	478,009	20,152
WV Infrastructure and Jobs Development Council	<u>298,489</u>	<u>—</u>	<u>(8,460)</u>	<u>4,874</u>	<u>294,903</u>	<u>12,615</u>
Total General Obligation Bonds	<u>798,490</u>	<u>—</u>	<u>(30,452)</u>	<u>4,874</u>	<u>772,912</u>	<u>32,767</u>
Revenue Bonds:						
School Building Authority	385,965	—	(20,030)	—	365,935	22,760
Premium/(Discount)	<u>3,763</u>	<u>—</u>	<u>(458)</u>	<u>—</u>	<u>3,305</u>	<u>—</u>
Total School Building Authority	389,728	—	(20,488)	—	369,240	22,760
Education	2,128	—	(59)	—	2,069	62
WV Infrastructure and Jobs Development Council	88,710	54,800	(54,490)	—	89,020	1,015
Premium/(Discount)	<u>(312)</u>	<u>697</u>	<u>77</u>	<u>(3,579)</u>	<u>(3,117)</u>	<u>—</u>
Total WV Infrastructure and Jobs Development Council	88,398	55,497	(54,413)	(3,579)	85,903	1,015
Economic Development Project Fund	236,005	—	(7,165)	—	228,840	7,275
Premium/(Discount)	<u>(1,328)</u>	<u>—</u>	<u>70</u>	<u>—</u>	<u>(1,258)</u>	<u>—</u>
Total Economic Development Project Fund	234,677	—	(7,095)	—	227,582	7,275
Education, Arts, Sciences, & Tourism Fund	<u>48,830</u>	<u>—</u>	<u>(7,375)</u>	<u>—</u>	<u>41,455</u>	<u>7,780</u>
Total Revenue Bonds	<u>763,761</u>	<u>55,497</u>	<u>(89,430)</u>	<u>(3,579)</u>	<u>726,249</u>	<u>38,892</u>
Capital Leases (See Note 11)	354,337	15,892	(16,312)	83	354,000	17,332
Other Obligations:						
Accrued and Other Liabilities (See Note 15)	491,555	30,743	(18,128)	—	504,170	33,249
Compensated Absences	276,099	10,599	(8,254)	—	278,444	71,012
Net Pension Obligation (See Note 12)	<u>276,175</u>	<u>—</u>	<u>(15,353)</u>	<u>—</u>	<u>260,822</u>	<u>—</u>
Total Other Obligations	<u>1,043,829</u>	<u>41,342</u>	<u>(41,735)</u>	<u>—</u>	<u>1,043,436</u>	<u>104,261</u>
Total Governmental Activities Long-Term Obligations	<u>\$2,960,417</u>	<u>\$112,731</u>	<u>\$ (177,929)</u>	<u>\$ 1,378</u>	<u>\$2,896,597</u>	<u>\$193,252</u>
Business-type Activities						
Accrued Tuition Contract Benefits	\$ 105,988	\$ 7,500	\$ (5,167)	\$ —	\$ 108,321	\$ 7,829
Insurance and Compensation Benefits	3,902,210	578,274	(937,886)	—	3,542,598	521,195
Liabilities Payable from Restricted Assets	5,536	37	(978)	—	4,595	336
Compensated Absences	<u>8,623</u>	<u>162</u>	<u>(4,274)</u>	<u>—</u>	<u>4,511</u>	<u>571</u>
Total Business-type Activities Long-Term Obligations	<u>\$4,022,357</u>	<u>\$585,973</u>	<u>\$ (948,305)</u>	<u>\$ —</u>	<u>\$3,660,025</u>	<u>\$529,931</u>

The assets of the general fund, special revenue, and internal service funds are used to liquidate the capital lease obligations and accrued and other liabilities of their respective fund types. Compensated absences liabilities are liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations are liquidated by the State's governmental and internal service funds that contribute toward the pension funds based on plans established by the action of the State Legislature. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, \$3.8 million of internal service funds compensated absences are included in the governmental amounts. Capital leases for Internal Service Funds are \$8.6 million in the June 30, 2006, balance and \$3.3 million in the amount due within one year in the governmental activities, while current year additions are \$2.5 million.

Senate Bill 1002, enacted in January 2005, provides that on and after February 1, 2005, bonds may not be issued or refunded by the State or any of its agencies, boards, or commissions without the express written direction of the governor if (1) the ultimate user of the proceeds of the bonds is the State or any of its agencies, boards commissions, or departments, or (2) the issuance or refunding of the bonds implicates the State's credit rating.

General Obligation Bonds – The State has constitutionally limited its ability to incur debt. The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of general obligation debt. General obligation bonds outstanding at June 30, 2006, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s)%	Balance
Transportation Bonds: Payable from State Road Fund, Issued Under: 1996 SAFE Roads Amendment	2025	3.00-6.10	\$478,009
Infrastructure Bonds: Payable from dedicated severance tax revenues	2027	4.30-8.00	<u>294,903</u>
Total			<u>\$772,912</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2006, were as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 30,660	\$ 33,218	\$ 63,878
2008	41,218	32,280	73,498
2009	42,696	30,804	73,500
2010	44,242	29,248	73,490
2011	45,889	27,598	73,487
2012-2016	204,240	112,793	317,033
2017-2021	156,124	78,916	235,040
2022-2026	161,038	50,487	211,525
2027-2031	<u>16,791</u>	<u>6,695</u>	<u>23,486</u>
	<u>742,898</u>	<u>402,039</u>	<u>1,144,937</u>
Premium	<u>30,014</u>	—	<u>30,014</u>
Total	<u>\$772,912</u>	<u>\$402,039</u>	<u>\$1,174,951</u>

Revenue Bonds – Revenue bonds are issued by various State departments, agencies and authorities and economic development projects. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute a general obligation of the State. The following describes the dedicated revenue source of revenue bonds outstanding at June 30, 2006:

- | | | |
|---|---|--|
| School Building Authority | - | Certain net profits of the West Virginia Lottery |
| Department of Education | - | Revenues from Cedar Lakes Conference Center |
| WV Infrastructure and
Jobs Development Council | - | Certain repayment of defined loans |
| Education, Arts, Sciences,
and Tourism Fund | - | Certain net profits of the West Virginia Lottery |
| Economic Development
Project Fund | - | Certain net profits of the West Virginia Lottery |

Revenue bonds outstanding at June 30, 2006, were as follows (expressed in thousands):

	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate(s)%</u>	<u>Balance</u>
School Building Authority	1990-2004	2022	2.00-6.95	\$369,240
Department of Education	1996	2025	5.75-6.00	2,069
WV Infrastructure and Jobs Development Council	2001-2004	2039-2040	2.50-5.50	85,903
Education, Arts, Sciences, and Tourism Fund	1997	2011	5.00-5.50	41,455
Economic Development Project Fund	2004	2026	1.20-6.07	<u>227,582</u>
Total				<u>\$726,249</u>

West Virginia

Future amounts required to pay principal and interest on revenue bonds at June 30, 2006, were as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 38,892	\$ 34,992	\$ 73,884
2008	41,051	34,472	75,523
2009	43,160	32,502	75,662
2010	45,229	30,418	75,647
2011	45,414	28,166	73,580
2012-2016	189,804	111,580	301,384
2017-2021	169,427	70,619	240,046
2022-2026	101,402	30,641	132,043
2027-2031	21,845	10,205	32,050
2032-2036	18,210	5,689	23,899
2037-2041	<u>12,885</u>	<u>1,216</u>	<u>14,101</u>
	<u>727,319</u>	<u>390,500</u>	<u>1,117,819</u>
Discount	<u>(1,070)</u>	<u>—</u>	<u>(1,070)</u>
Total	<u>\$726,249</u>	<u>\$390,500</u>	<u>\$1,116,749</u>

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

Summary of Discretely Presented Component Unit Debt (Expressed in Thousands)

	<u>Balance June 30, 2005</u>	<u>Debt Issued</u>	<u>Debt Paid</u>	<u>Other Changes</u>	<u>Balance June 30, 2006</u>	<u>Amount Due Within One Year</u>
Revenue Bonds:						
Housing Development Fund	\$ 707,900	\$145,000	\$(118,710)	\$ —	\$ 734,190	\$58,795
Parkways, Economic Development, and Tourism Authority	105,098	—	(6,650)	1,239	99,687	3,239
Water Development Authority	241,495	84,660	(75,965)	(2,403)	247,787	5,786
Higher Education	734,368	8,507	(20,527)	—	722,348	21,325
Regional Jail Authority	<u>94,050</u>	<u>—</u>	<u>(3,940)</u>	<u>—</u>	<u>90,110</u>	<u>4,130</u>
Total Discretely Presented Component Unit Revenue Bonds	<u>\$1,882,911</u>	<u>\$238,167</u>	<u>\$(225,792)</u>	<u>\$(1,164)</u>	<u>\$1,894,122</u>	<u>\$93,275</u>
Capital Leases:						
Economic Development Authority	\$ 11,870	\$ —	\$(4,652)	\$ —	\$ 7,218	\$ 517
Parkways, Economic Development, and Tourism Authority	—	1,945	—	—	1,945	500
Higher Education	28,796	8,754	(10,218)	—	27,332	6,129
Job Investment Trust	18,653	—	—	1,225	19,878	—
West Virginia State Rail Authority	1,224	—	(370)	(17)	837	412
Public Defender Corporation	<u>212</u>	<u>—</u>	<u>(44)</u>	<u>—</u>	<u>168</u>	<u>16</u>
Total Discretely Presented Component Unit Capital Leases	<u>\$ 60,755</u>	<u>\$ 10,699</u>	<u>\$(15,284)</u>	<u>\$ 1,208</u>	<u>\$ 57,378</u>	<u>\$ 7,574</u>

Discretely Presented Component Units

Revenue Bonds – Revenue bonds are issued by various component units pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenue sources, such as tuition and registration fees, dedicated court fees, mortgage loan repayments, and certain nontoll revenues. Revenue bonds do not constitute general debt of the State (expressed in thousands).

	Issue Date	Final Maturity Date	Interest Rate(s)%	Balance
Housing Development Fund	1992-2006	2040	3.67 - 6.55	\$ 734,190
Parkways, Economic Development, and Tourism Authority	1993-2003	2019	3.50 - 7.00	99,687
Water Development Authority	1995-2006	2044	2.00 - 6.375	247,787
Higher Education	1969-2006	2035	4.18 - 6.26	722,348
Regional Jail Authority	1998	2021	4.31 - 5.35	<u>90,110</u>
Total Revenue Bonds				<u>\$1,894,122</u>

Future amounts required to pay principal and interest on revenue bonds of the discretely presented component units at June 30, 2006, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2007	\$ 94,074	\$ 94,601	\$ 188,675
2008	65,785	87,394	153,179
2009	66,183	84,230	150,413
2010	64,066	81,254	145,320
2011	66,124	78,316	144,440
2012-2016	327,643	360,732	688,375
2017-2021	369,496	286,705	656,201
2022-2026	330,610	201,633	532,243
2027-2031	298,300	124,766	423,066
2032-2036	186,219	32,482	218,701
2037-2041	35,940	6,180	42,120
2042-2046	7,756	800	8,556
	<u>1,912,196</u>	<u>1,439,093</u>	<u>3,351,289</u>
Discount	(27,156)	—	(27,156)
Premium	9,082	—	9,082
Total	<u>\$1,894,122</u>	<u>\$1,439,093</u>	<u>\$3,333,215</u>

Parkways, Economic Development, and Tourism Authority

In 2003, the Parkways, Economic Development, and Tourism Authority (Parkways) issued \$63,900,000 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$61,280,000 of Parkways' Series 1993 Bonds. This refunding resulted in a

\$7,896,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$569,000 in 2006 and \$570,000 in 2005. Parkways completed the refunding to reduce its aggregate debt service payment by \$7,270,000 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,851,000. The Series 2003 bonds bear interest at the Weekly Interest Rate determined by the remarketing agent on Tuesday of each week. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, Parkways entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change Parkway's variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of \$63,900,000 matches the \$63,900,000 variable rate bonds, Series 2003. Under the swap, Parkways pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67.0% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on The Bond Market Association Municipal Swap Index (BMA).

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$2,328,123 as of June 30, 2006. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

As of June 30, 2006, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standard & Poor's and Aa by Moody's Investors Service as of June 30, 2006.

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic

rate as of June 30, 2006. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2006, the BMA rate was 3.67%, whereas 67.0% of the LIBOR was 3.81%.

Parkways or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, Parkways would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

<u>Year Ended June 30</u>	<u>Variable-Rate Bonds</u>		<u>Interest Rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	
2007	\$ 300	\$ 561	\$ 2,375	\$ 3,236
2008	3,900	670	2,234	6,804
2009	4,300	668	2,060	7,028
2010	4,300	665	1,865	6,830
2011	4,700	624	1,705	7,029
2012-2016	26,600	2,407	5,836	34,843
2017-2019	<u>19,200</u>	<u>999</u>	<u>770</u>	<u>20,969</u>
	<u>\$63,300</u>	<u>\$6,594</u>	<u>\$16,845</u>	<u>\$86,739</u>

Debt Contingencies and No-Commitment Debt

As a vehicle to assist the local and other non-State governments in West Virginia, the State may appropriate sufficient amounts to meet any deficiencies that may arise because of failures by such entities to provide for debt service payments for obligations under the supervision and control of the Municipal Bond Commission. For the year ended June 30, 2006, no such amounts were transferred to the Municipal Bond Commission under this agreement.

The Hospital Finance Authority (HFA), the Public Energy Authority (PEA), and the Economic Development Authority (EDA) have issued bonds on behalf of third parties that in no way obligates the State, HFA, PEA, or EDA, for these debt issuances, unless these entities or the State serve in a third-party role. The obligations become an obligation of the third party when issued, because all rights to payments and/or obligations have been irrevocably assigned to a trustee. Payments are made directly to the trustee from

dedicated revenues of the third parties, in accordance with the related bond indentures. The amount of such no-commitment debt outstanding at June 30, 2006, is approximately \$1.1 billion, \$88 million, and \$841 million for HFA, PEA, and EDA, respectively.

Included in the \$841 million EDA current value is \$331 million related to bonds issued by EDA specifically for the construction of correctional, public safety, and other State office facilities, as well as an energy savings project. The bonds are limited obligations of the EDA, payable solely out of rental revenue derived under the indenture and the contracts of lease-purchase between the EDA and the State. The bonds shall never constitute an indebtedness of the State or the issuer within the meaning of any constitutional provision or statutory limitation, nor are they a charge against the property, general credit, or taxing power, if any, of the State or issuer. The State's obligation to pay rentals is subject to and dependent upon yearly appropriations being made by the State Legislature sufficient for such purpose. If the State Legislature does not make an appropriation to pay the lease rentals or the State provides a 30-day notice of cancellation, the contracts of lease-purchase shall be terminated, and the State is to surrender possession of the related facilities. The State has recorded the leasing arrangements as capital lease obligations, included in the lease amounts disclosed in Note 11.

The Housing Development Fund (HDF) has a \$15 million line of credit with the Federal Home Loan Bank that is available as a warehouse line for the purchase of single-family, multifamily, and secondary market loans. This line of credit is secured by investments of the Bond Insurance Fund and is a general obligation of the HDF. At June 30, 2006, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

Current Year Extinguishment of Debt

West Virginia Infrastructure and Jobs Development Council

On June 22, 2006, Infrastructure Revenue Refunding Bonds, Series 2006A, were issued for \$44,650,000 with interest rates ranging from 3.625% to 5.00% to refund \$43,850,000 of the remaining balance of the Infrastructure Council's outstanding Series 2000A revenue bonds with interest rates ranging from 4.50% to 5.75%. The proceeds of \$45,477,744 (including original issue premium of \$827,744) and \$1,054,254 of the Council's funds were used to pay \$536,974 in underwriting fees, insurance, and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the interest on the 2000A bonds coming due on April 1 and October 1 of each year beginning October 1, 2006, to and including October 1, 2010, and to pay the principal of the 2000A bonds coming due on October 1 of each year beginning October 1, 2006, to and including October 1, 2010. As a result of this advance refunding, \$43,850,000 of bonds are considered to be defeased; and the liability for those bonds has been removed from the

financial statements. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$2,145,025. Adjusted for 2006 amortization of \$1,433, this difference is being charged to expense through fiscal year 2040 using the straight-line method. The Council completed the refunding to reduce its total debt service payments over the next 33 years by \$6,630,292 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,756,280.

Also on June 22, 2006, Infrastructure Revenue Refunding Bonds, Series 2006B, were issued for \$10,150,000 with interest rates ranging from 3.625% to 4.25% to refund \$9,345,000 of the remaining balance of the Council's outstanding Series 2003A revenue bonds with interest rates ranging from 2.50% to 5.00%. The net proceeds of \$10,019,130 (after original issue discount of \$130,870) and \$157,838 of the Council's funds were used to pay \$109,696 in underwriting fees, insurance, and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide the interest on the 2003A bonds coming due on April 1 and October 1 of each year beginning October 1, 2006, to and including October 1, 2013, and the redemption price of the remaining 2003A bonds on October 1, 2013, and to pay the principal of the 2003A bonds coming due on October 1 of each year beginning October 1, 2006, to and including October 1, 2013. As a result of this advance refunding, \$9,345,000 of bonds are considered to be defeased; and the liability for those bonds has been removed from the financial statements. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$787,333. Adjusted for 2006 amortization of \$1,013, this difference is being charged to expense through fiscal year 2024 using the straight-line method. The Council completed the refunding to reduce its total debt service payments over the next 33 years by \$672,923 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$509,293.

Housing Development Fund

During the fiscal year ended June 30, 2006, the Housing Development Fund redeemed \$99,150 of bonds at a redemption price which approximated their carrying value. The impact of the early redemption on their financial statements was not material and there was no debt reissued.

Water Development Authority

On October 27, 2005, the Water Development Authority (the Authority) issued two series of refunding bonds. Series 2005 AII, issued for \$19,295,000 with interest rates ranging from 3.50% to 5.00%, was used to refund \$18,900,000 of the remaining balance of the Authority's outstanding Series 1995 AII refunding bonds with interest rates originally

ranging from 4.70% to 5.625%. The net proceeds of \$19,549,418 (including net original issue premium of \$254,418) and other funds available to the Authority were used to pay \$289,701 in underwriting fees, insurance, and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the December 1, 2005, redemption of the bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$3,171,384. Adjusted for 2006 amortization of \$76,423, this difference is being charged to nonoperating expenses through fiscal year 2034 using the straight-line method. The Authority completed the refunding to reduce its total debt service payments over the next 29 years by \$3,814,509 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,323,747.

Series 2005 BII, issued for \$12,315,000 with interest rates ranging from 3.50% to 5.00%, was used to refund \$11,920,000 of the remaining balance of the Authority's outstanding Series 1995 BII revenue bonds with interest rates originally ranging from 4.70% to 5.50%. The net proceeds of \$12,361,069 (including net original issue premium of \$46,069) were used to pay \$190,927 in underwriting fees, insurance, and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the December 1, 2005, redemption of the bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$917,105. Adjusted for 2006 amortization of \$22,100, this difference is being charged to nonoperating expenses through fiscal year 2034 using the straight-line method. The Authority completed the refunding to reduce its total debt service payments over the next 31 years by \$1,759,453 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$495,451.

On February 14, 2006, the Authority issued Series 2006 AII for \$41,225,000 in refunding bonds with interest rates ranging from 3.75% to 5.00% to refund \$38,845,000 of the remaining balance of the Authority's outstanding Series 1999 AII revenue bonds with interest rates originally ranging from 4.10% to 5.50%. The net proceeds of \$41,557,773 (including net original issue premium of \$332,773) and other funds available to the Authority were used to pay \$534,241 in underwriting fees, insurance and other issuance costs relating to the refunding bond issue and to purchase United States Treasury obligations. Those securities were deposited in a irrevocable trust with an escrow agent to provide for the regular debt service on the refunded bonds coming due on May 1 and November 1 of each year beginning May 1, 2006, and the redemption price of the remaining Series 1999 A bonds on November 1, 2009. As a result of this advanced refunding,

\$38,845,000 of bonds are considered to be defeased; and the liability for those bonds has been removed from the Authority's financial statements. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$3,700,614. Adjusted for 2006 amortization of \$41,467, this difference is being charged to nonoperating expenses through fiscal year 2040 using the straight-line method. The Authority completed the refunding to reduce its total debt service payments over the next 34 years by \$1,874,072, and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$858,069.

Prior Defeasances

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2006, the following outstanding bonds are considered defeased (expressed in thousands):

<u>Outstanding Amount</u>	
Primary Government	\$ 306
Discretely Presented Component Units	<u>80,430</u>
Total	<u>\$80,736</u>

NOTE 11

LEASES

The State has entered into various lease/purchase agreements with the private sector, primarily for buildings and equipment. These agreements, accounted for as capital leases, are for various terms. While most of these agreements contain fiscal funding clauses indicating that their continuation is subject to continuing appropriation by the Legislature, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

The State has also entered into lease/purchase agreements with the Economic Development Authority which issued bonds to finance construction and acquisition of various capital assets as well as an energy savings project. The State becomes the tenant of the facility under a lease/purchase agreement which provides for the payment of rentals sufficient to cover the related bond debt service and for the passage of title to the State after the bonds have been repaid. The governmental activities capital leases obligation includes approximately \$207 million related to these lease agreements with EDA, a discretely presented component unit. More information on the conduit debt of the EDA is included in Note 10.

GAAP requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee. For capital leases in governmental funds, other financing sources are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid. In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception.

The following table is an analysis of the property acquired under capital leases by asset category at June 30, 2006, (expressed in thousands):

<u>Asset Type</u>	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
	<u>Assets Acquired by Capital Lease</u>	<u>Accumulated Depreciation</u>
Land	\$ 3,063	\$ —
Buildings and Improvements	269,991	39,894
Construction in Progress	70,837	—
Machinery and Equipment	12,419	7,466
Infrastructure	<u>3,108</u>	<u>1,087</u>
Total	<u>\$359,418</u>	<u>\$48,447</u>

Future minimum commitments under capital leases as of June 30, 2006, were as follows (expressed in thousands):

Year Ended <u>June 30</u>	Capital Leases		
	<u>Governmental Activities</u>	<u>Discretely Presented Component Units</u>	<u>Total</u>
2007	\$ 34,485	\$ 8,861	\$ 43,346
2008	31,736	7,776	39,512
2009	30,920	5,222	36,142
2010	27,011	2,758	29,769
2011	25,226	8,307	33,533
2012-2016	127,823	33,710	161,533
2017-2021	132,541	3,848	136,389
2022-2026	109,400	3,409	112,809
2027-2031	62,118	—	62,118
2032-2036	<u>3,710</u>	<u>—</u>	<u>3,710</u>
Total Minimum Lease Payments	584,970	73,891	658,861
Less: Interest	<u>(230,970)</u>	<u>(16,513)</u>	<u>(247,483)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 354,000</u>	<u>\$ 57,378</u>	<u>\$ 411,378</u>

Other leases, principally for equipment, are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Operating lease expenditure/expense for the year ended June 30, 2006, was \$25 million. Future minimum commitments under operating leases as of June 30, 2006, were as follows (expressed in thousands):

Year Ended <u>June 30</u>	Operating Leases			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Discretely Presented Component Units</u>	<u>Total</u>
2007	\$11,075	\$231	\$10,796	\$ 22,102
2008	8,972	167	7,159	16,298
2009	7,132	170	6,650	13,952
2010	5,787	129	4,929	10,845
2011	4,303	—	4,136	8,439
2012-2016	11,769	—	16,712	28,481
2017-2021	4,359	—	9,979	14,338
2022-2026	1,874	—	9,880	11,754
2027-2031	<u>197</u>	<u>—</u>	<u>9,908</u>	<u>10,105</u>
Total Minimum Lease Payments	<u>\$55,468</u>	<u>\$697</u>	<u>\$80,149</u>	<u>\$136,314</u>

NOTE 12

RETIREMENT SYSTEMS

Plan Description

The West Virginia State Legislature has established six defined benefit plans (the Plans) and a defined contribution plan to provide retirement benefits for eligible employees. The Plans are a group of defined benefit public employee retirement systems. The Consolidated Public Retirement Board (CPRB) administers the Plans under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor.

CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from the Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720. The Plans' financial statements are prepared using fund accounting principles and the accrual basis of accounting, under which expenses are recorded when liabilities are incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Investments are carried at fair value as determined by a third-party pricing service utilized by the respective investment management companies. Investment transactions are accounted for on a trade-date basis. Unrealized gains and losses are included in investment income. Investment income is determined monthly and distributed to each of the defined benefit plans participating in the investment pools on the last day of the month in the form of reinvested shares.

The net pension obligation at June 30, 2006, amounted to approximately \$261 million, which is a decrease of approximately \$15 million from the prior year's obligation.

The Plans are comprised of the following groups of defined benefit plans which provide substantially all employees of the State, its public education system, and other political subdivisions of the State with retirement and death and disability benefits:

- The Public Employees' Retirement System (PERS) is a multiple-employer, cost-sharing, public employee retirement system. The number of local government employers participating in PERS at June 30, 2006, was 524, including 123 cities and towns, 346 special districts, and 55 counties.
- The Deputy Sheriff Retirement System (DSRS) is a multiple-employer, cost-sharing, public employee retirement system which was established for all deputy sheriffs hired on or after July 1, 1998. Current employees were eligible to transfer from PERS. The State makes no employer contributions to DSRS.

- The Teachers' Retirement System (TRS) is a multiple-employer, cost-sharing, public employee retirement system. Fifty-five county public school systems, certain personnel of the thirteen State-supported institutions of higher education, West Virginia Department of Education, and boards of higher education participate in the TRS plan. Because the State provides substantially all the funding for TRS, the State follows the GASB Statement No. 27 reporting requirements for sole employer plans.
- The Public Safety Death, Disability, and Retirement Fund (PSDDRF), the State Police Retirement System (SPRS), and the Judges' Retirement System (JRS) are single-employer, public employee retirement systems.

Current Year Actuarial Changes

Significant changes in assumptions included in the July 1, 2005, actuarial valuations are as follows:

The State Legislature adopted compensation and benefit increases to the Judges' Retirement System effective July 1, 2005. Member contributions increased from 9.0% to 10.5% of compensation. A new benefit structure was established for Judges first appointed on or after July 2, 2005. The compensation and benefit increases, as well as the member contribution increase, are reflected in the July 1, 2005, valuation. This valuation does not incorporate the new benefit structure since no current members are impacted.

Funding Policy

Funding policies for all the Plans have been established and changed from time to time by action of the State Legislature. Actuarial valuations are performed to assist the Legislature in determining appropriate contribution rates. As a condition of participation in the Plans, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by CPRB. The following schedule summarizes each defined benefit plan's required contribution rates at June 30, 2006:

Statutory Contribution Rates as a Percent of Covered Payroll		
<u>System</u>	<u>Member</u>	<u>Employer</u>
PERS	4.5%	10.5%
TRS	6.0%	15.0% State 15.0% Counties 15.0% Other Employers
PSDDRF	9.0%	15.0%
SPRS	12.0%	12.0%
JRS	10.5%	Appropriated by the Legislature

The State Supreme Court has required the State to fund the Teachers' Retirement System in an actuarially sound manner to eliminate the unfunded liability over a forty-year period beginning on July 1, 1994, and to meet the cash flow requirements of the TRS in fulfilling its future anticipated obligations to its members. The State Supreme Court has further ordered the State, through the Governor, to require the appropriate funding should the State Legislature fail to do so. Since this ruling, the Legislature has supplemented the funding of the TRS to meet this requirement.

To reduce the unfunded liabilities in the pension systems, the State has provided supplemental non-ARC related appropriations. The Public Safety Death Disability and Retirement Fund System was appropriated \$58 million in general revenue and \$11 million in excess lottery funds in fiscal year 2006 and \$225 million in fiscal year 2005. The Teachers' Retirement System was appropriated \$187 million from general revenue funds and \$180 million from the excess lottery funds in fiscal 2006.

Pension Investments

Following is a summary of investment holdings by plan at the IMB. Substantially all of the following investment pools are in excess of 5% of total investments for all plans as of June 30, 2006, (expressed in thousands):

	<u>PERS</u>	<u>TRS</u>	<u>PSDDRF</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>
Large Cap Equity	\$ 903,218	\$ 454,302	\$113,626	\$ 7,438	\$18,823	\$20,427
Non-Large Cap Equity	510,331	272,909	65,572	4,424	11,240	12,286
International Equity	738,509	367,702	84,470	5,937	15,290	16,747
Fixed Income	1,520,398	742,827	181,560	12,519	31,171	33,838
Short-Term Fixed Income	<u>23,571</u>	<u>241,650</u>	<u>7,138</u>	<u>426</u>	<u>551</u>	<u>2,634</u>
Total	<u>\$3,696,027</u>	<u>\$2,079,390</u>	<u>\$452,366</u>	<u>\$30,744</u>	<u>\$77,075</u>	<u>\$85,932</u>

The following investment managers have investments at fair value in excess of 5% of the net assets of the Teachers' Defined Contribution Retirement System as of June 30, 2006, (expressed in thousands):

American Funds Bond Fund A	\$ 48,027
American Funds Growth Fund A	117,538
American Funds Wash Mutual A	64,230
Federated Max Cap Institutional	57,664
Franklin Income Fund A	78,432
Valic Fixed Annuity Option	244,816
Vanguard Money Market Prime Portfolio	45,422
Other (Less than 5%)	<u>79,883</u>
Total	<u>\$736,012</u>

Annual Pension Cost, Funding and Net Pension Obligation

The State's contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were \$96,107,077, \$83,406,764, and \$81,333,203, respectively, equal to the required contributions for each year. The following table provides the annual pension cost and changes in net pension obligation for each defined benefit plan reported as a sole employer plan for the current year (expressed in thousands):

	<u>TRS</u>	<u>PSDDRF</u>	<u>SPRS</u>	<u>JRS</u>
Annual required contribution (ARC)	\$339,815	\$10,567	\$ 1,717	\$ 4,104
Interest on net pension obligation	15,944	4,769	(156)	(14)
Adjustment to ARC	<u>(13,345)</u>	<u>(3,930)</u>	<u>179</u>	<u>21</u>
Annual pension cost (APC)	<u>\$342,414</u>	<u>\$11,406</u>	<u>\$ 1,740</u>	<u>\$ 4,111</u>
ARC related contributions made	<u>\$360,543</u>	<u>\$ 8,630</u>	<u>\$ 1,821</u>	<u>\$ 6,758</u>
Percentage of APC Contributed	105.29%	75.66%	104.66%	164.39%
Net pension obligation (asset), July 1, 2005	\$212,593	\$63,582	\$(2,076)	\$ (181)
Increase (decrease) in net pension obligation (asset)	<u>(18,129)</u>	<u>2,776</u>	<u>(81)</u>	<u>(2,647)</u>
Net pension obligation (asset), June 30, 2006	<u>\$194,464</u>	<u>\$66,358</u>	<u>\$(2,157)</u>	<u>\$(2,828)</u>

Three-Year Trend Information

In accordance with GASB 27, the single-employer plans disclose the following (expressed in thousands):

	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
<u>TRS</u>	2006	\$342,414	105.29%	\$194,464
	2005	\$337,426	100.68%	\$212,593
	2004	\$336,043	94.07%	\$214,891
<u>PSDDRF</u>	2006	\$ 11,406	75.66%	\$ 66,358
	2005	\$ 28,139	97.26%	\$ 63,582
	2004	\$ 28,577	83.75%	\$ 62,810
<u>SPRS</u>	2006	\$ 1,740	104.66%	\$ (2,157)
	2005	\$ 1,608	105.85%	\$ (2,076)
	2004	\$ 1,360	111.76%	\$ (1,982)
<u>JRS</u>	2006	\$ 4,111	164.39%	\$ (2,828)
	2005	\$ 4,320	156.44%	\$ (181)
	2004	\$ 6,618	80.52%	\$ 2,257

Actuarial Methods and Assumptions

	<u>TRS</u>	<u>PSDDRF</u>	<u>SPRS</u>	<u>JRS</u>
Valuation date	July 1, 2005	July 1, 2005	July 1, 2005	July 1, 2005
Actuarial cost method	Entry age cost	Entry age cost	Entry age cost	Entry age cost
Asset valuation method	Fair value	Fair value	Fair value	Fair value
Amortization method	Constant percentage of payroll	Constant percentage of payroll	Constant dollar	Constant dollar
Amortization period	Through FY 2034, closed	Through FY 2025, closed	Through FY 2030, closed	Through FY 2018, closed
Actuarial assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	7.50%
Projected salary increases:				
Attributable to inflation	3.00%	3.00%	3.00%	3.00%
Attributable to merit	.50%-2.50%	1.75%-3.00%	1.75%-3.00%	1.50%
Postemployment benefit increases	None	3.75%	1.00%	4.50%
		Annual cost of living adjustment	Annual cost of living adjustment	

Defined Contribution Plans

The Teachers' Defined Contribution Retirement System (TDCRS)

TDCRS, administered by the Consolidated Public Retirement Board, is a multiple-employer defined contribution retirement system primarily covering the full-time employees of the State's 55 county public school systems, the State Department of Education, and the School for the Deaf and the Blind, who were hired after June 30, 1991. TDCRS members also include former TRS plan members, including higher education employees, who have elected to participate in the TDCRS plan. There are approximately 22,343 and 22,950 members in the TDCRS plan at June 30, 2006 and 2005, respectively. TDCRS retirement benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires employees to contribute 4.5% of their gross compensation and the employers contribute 7.5% of covered members' gross compensation from amounts allocated to the employers through the State School Aid Formula. Employer contributions for each employee (and interest allocated to the employee's account) become partially vested after six years and fully vested after twelve years of completed service. Employer

contributions and earnings thereon forfeited by employees who leave employment prior to becoming vested are available, in the event the employee does not return to active participant status within five years, to reduce the employer's current-period contribution requirement. Any such forfeitures arising from contributions plus earnings thereon, will be used to reduce future employee contributions.

The TDCRS financial statements are prepared using the accrual basis of accounting. TDCRS provides members with their choice of several investment options which include government security mutual funds, common stock mutual funds, guaranteed insurance contract mutual funds and individually allocated annuities, or three lifestyle funds.

For the year ended June 30, 2006, the approximate payroll of State employees covered by TDCRS was \$690 million and total covered payroll for both the TDCRS and TRS was approximately \$1.4 billion. Both the employees and employers made the required contributions amounting to \$28.4 million and \$46.3 million, respectively, or 4.12% and 6.71% of covered payroll.

Teachers' Insurance and Annuity Association

The Teachers' Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA-CREF), a privately administered multiple employer defined contribution retirement plan, provides individual retirement fund contracts for each eligible participating employee. Eligible employees consist mainly of state college/university faculty and staff. For the year ended June 30, 2006, contributions were approximately \$29.3 million from the covered employees and approximately \$29.3 million from the thirteen participating institutions from the State of West Virginia.

Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total annual required contribution and the amount paid is 6% of the employee's annual salary and is established by the Board of Trustees of the University System of West Virginia and the Board of Directors of the State College System. The State has no further liability once annual contributions are made.

NOTE 13

OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 12, the State provides certain health care insurance benefits, in accordance with State statutes, for retired employees. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the State. The State provides health care credits against monthly health insurance premiums of certain retirees based on various factors, including unused sick leave (see Note 1, "Compensated Absences") at the time of retirement. It is the State's practice to record a liability for expected conversion of sick leave to health care premiums.

According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988, and July 1, 2001, can receive health care credits against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

The obligation associated with retiree health care benefits is funded on a pay-as-you-go basis. Expenditures recognized for the fiscal year ended June 30, 2006, related to retiree premium sick leave conversion, were approximately \$15 million for approximately 4,900 eligible retirees.

In addition to the pension benefits allowing certain retirees to convert sick leave to health care premiums, State statutes provide that employees who retire may continue participation in the State's health insurance plan subject to certain length of service and participation requirements. Such employees are eligible to participate in the public employees' insurance program by making the premium contribution specified by the PEIA Finance Board. Approximately 32,900 retirees meet those eligibility requirements at June 30, 2006. The retirees currently pay approximately 35% of validated health care claims for retirees and their dependents. The balance of the cost is funded by the State through a retiree subsidy, which is included in the make-up of the premium charged for the coverage of each active employee. These postretirement benefits are accounted for and funded on a pay-as-you-go basis. Accordingly, the liability related to providing such benefits is not accrued for in the accompanying financial statements. During the year ended June 30, 2006, expenditures/expenses for such benefits approximated \$115 million net of participant contributions.

NOTE 14

RISK MANAGEMENT

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia operates three significant insurance enterprise funds: Board of Risk and Insurance Management (BRIM), Public Employees' Insurance Agency (PEIA), and Workers' Compensation Fund (WCF). The State also operates AccessWV, which provides health care coverage consistent with comprehensive coverage to every eligible person who is not eligible for medicare. AccessWV is operated so as to qualify as an acceptable alternative mechanism under the Federal Health Insurance Portability and Accountability Act and as an option to provide health insurance coverage for individuals eligible for the federal health care tax credit established by the Federal Trade Adjustment Assistance Reform Act of 2002 (Section 35 of the Internal Revenue Code of 1986). AccessWV total unpaid claims and claims adjustment expense liability at June 30, 2006, was under \$500,000. The amount of settlements in the major insurance enterprise funds have not exceeded insurance coverage in the past three years.

Description of the Funds

Board of Risk and Insurance Management

BRIM provides a property and liability insurance program for its member agencies. BRIM has general supervision and control over the insurance of all State property, including that of the institutions of higher education and the discretely presented component units. In addition, the political subdivisions in the State and certain other charitable and public service organizations may request coverage by PEIA. Types of coverage provided by BRIM have been expanded over time to include medical malpractice, automobile liability, and coal mine subsidence reinsurance. At the end of the fiscal year, 1,388 organizations participated in the BRIM risk pool.

Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains a \$1 million per occurrence coverage maximum on all third-party liability claims. In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Excess coverage under this program is limited to \$200 million per event, subject to limits on certain property. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. There have been no significant reductions in insurance coverage from the prior year.

Public Employees' Insurance Agency

PEIA provides a program of health, life, and prescription insurance for its member agencies. PEIA provides coverage for all participating State employees, including those of the institutions of higher education and the discretely presented component units. In addition, the political subdivisions in the State and certain other charitable and public service organizations may request coverage by PEIA. PEIA's general objectives are to provide a basic employee benefit insurance program which includes hospital, surgical, major medical, prescription drug, and basic life and accidental death for all participating employers and employees. Underwriting and rate setting policies are established by PEIA. The cost of all coverage, as determined by PEIA, shall be paid by the participants. Coverage under these programs is limited to \$1 million lifetime for health and \$500,000 of life insurance coverage. Premiums are established by PEIA at varying rates dependent upon, among other things, coverage required, number of dependents, State vs. non-State employees, and active employee vs. retired employee. PEIA retains all risks for the health and prescription features of its indemnity plan. PEIA has transferred the risks for health and prescription coverage for those individuals covered by the Managed Care Organization (MCO) Plan to the plan providers. The risks of the life insurance coverage have been transferred to a third-party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 222,000 individuals, including participants and dependents.

Workers' Compensation Fund

The Workers' Compensation Commission (WCC) was an agency of the State of West Virginia. On February 16, 2005, the West Virginia legislature enacted "Senate Bill 1004" which established a framework for the privatization of the state's monopolistic workers' compensation system and created the means to transition the Workers' Compensation Commission into a domestic employers' mutual insurance company. On December 31, 2005, the West Virginia WCC ceased to exist as a state entity and all regulatory duties for workers' compensation insurance transitioned to the offices of the West Virginia Insurance Commissioner, as did the administrative oversight of certain assets and liabilities of the former WCC. The Industrial Council was established by Senate Bill 1004 to assist the Insurance Commissioner in the regulation of the workers' compensation system. Any other applicable State agency or department, whose functions are necessary for the regulation of the workers' compensation insurance industry, transferred to the Industrial Council including, but not limited to, the following WCC functions: rate making, self-insurance, office of judges, and board of review. The Industrial Council consists of five voting members appointed by the governor, with the advice and consent of the Senate, who meet the prescribed requirements and qualifications.

On January 1, 2006, the former WCC became a private sector insurance company named BrickStreet Mutual Insurance Company. BrickStreet's liabilities consist of all claims payment obligations (indemnity and medical expenses) for all claims, actual and incurred but not reported, with a date of injury on or after July 1, 2005. However, any payments made on these claims before January 1, 2006, were incurred by the WCF and BrickStreet liabilities began with claims payments becoming due and owing on said claims on or after January 1, 2006. A portion of the WCC's assets transferred to BrickStreet, included funding for BrickStreet's initial capital, as well as the transfer of a portion of the employees to the company. The remainder of the assets and employees transferred to the Industrial Council and the Insurance Commissioner.

The "workers' compensation old fund" (Old Fund) was created for those funds transferred to the offices of the West Virginia Insurance Commissioner and those funds due and owing the workers' compensation fund as of June 30, 2005. The Old Fund assets and liabilities are the responsibility of the State and did not novate or otherwise transfer to BrickStreet. Disbursements from the Old Fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, with a date of injury on or before June 30, 2005.

Senate Bill 1004 also created the "workers' compensation uninsured employers' fund," "self-insured guaranty risk pool," "self-insured security risk pool," "private carrier guaranty fund," and an "assigned risk fund" in the State treasury. For financial statement presentation purposes, these funds as well as the "Old Fund" are included as the Workers' Compensation Fund (WCF) in the Proprietary Funds financial statements of the State.

Pursuant to §23-2c-16 of the West Virginia Code, BrickStreet shall serve as the initial third-party administrator of the WCF from the termination of the WCC and thereafter for a term of at least six months but not more than three years pursuant to an agreement to be entered into between the Insurance Commissioner and the mutual company prior to the termination of the Workers' Compensation Commission. An affiliated company of BrickStreet Mutual Insurance Company, BrickStreet Administrative Services, has served as the administrator of the state's workers' compensation related fund, since January 1, 2006. BrickStreet is paid a fee for services provided.

Unpaid Claims Liabilities

The three insurance funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are

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deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not result in an exact amount. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Accordingly, the actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the financial statements. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Information concerning the changes in those aggregate liabilities for the past two fiscal years is shown in the following table (expressed in thousands):

	BRIM		PEIA		WCF	
	2006	2005	2006	2005	2006	2005
Unpaid claims and claims adjustment expense liability, beginning of year	\$185,069	\$219,328	\$ 65,399	\$ 61,690	\$3,636,300	\$4,083,700
Privatized portion of liability					(139,135)	
					3,497,165	
Incurred claims and claims adjustment expense:						
Provision for insured events of the current fiscal year	58,319	65,669	518,094	486,666	138,521	307,577
Increase (decrease) in provision for insured events of prior fiscal years	(21,243)	(8,994)	1,300	(3,460)	(117,668)	(383,100)
Amortization of discount	—	—	—	—	170,970	192,139
Total incurred claims and claims adjustment expense	37,076	56,675	519,394	483,206	191,823	116,616
Payments:						
Claims and claims adjustment expense attributable to insured events of the current fiscal year	10,097	9,134	460,973	426,562	18,471	72,641
Claims and claims adjustment expense attributable to insured events of the prior fiscal year	37,975	49,117	63,698	52,935	394,332	487,775
Total payments	48,072	58,251	524,671	479,497	412,803	560,416
Less liability assumed by WVPMIC	—	(32,683)	—	—	—	—
Change in provision for Disabled Workers' Relief Fund receivable	—	—	—	—	(17,085)	(3,600)
Total unpaid claims and claims adjustment expense liability, end of year	\$174,073	\$185,069	\$ 60,122	\$ 65,399	\$3,259,100	\$3,636,300

Neither BRIM nor PEIA discount their estimated claims liability. At June 30, 2006, the total undiscounted claims liability for WCF approximated \$5.5 billion. Invested assets of WCF are not sufficient at current investment rates to retire the claims liability and WCF has a significant deficit. GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. Based on the expected investment yields on WCF's investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using a rate of 5%. If discounting of the WCF claims liability was limited to anticipated investment income, the claims liability would have increased by approximately \$1.96 billion to a claims liability of approximately \$5.47 billion, and the total deficit would have increased to approximately \$4.06 billion at June 30, 2006.

The Offices of the Insurance Commissioner management believes the discounted liability for unpaid claims and claims adjustment expenses is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the WCF's financial statements.

Fund Deficit and Deficit Funding Plan for Workers' Compensation

As stated earlier in this note, the WCC was terminated effective December 31, 2005, and its powers were transferred to the Industrial Council established by Senate Bill 1004 to assist the Insurance Commissioner in the regulation of the workers' compensation system. Senate Bill 1004 further established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2 (d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement, and Code §29-22A-10, 10b: an estimated \$11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield an approximate \$90.2 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3 (f) (3): monthly premium surcharges to be collected for all West Virginia employers expected to yield \$54 million annually. Amounts actually received in FY 2006 approximated \$146 million. The net proceeds from collection of these monies are to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers' compensation fund.

Required Supplementary Information

Each of the three risk pools has issued separate, audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information.

Complete financial statements of the individual insurance enterprise funds, including additional detailed disclosures, can be obtained directly from their respective administrative offices.

Board of Risk and Insurance Management
90 MacCorkle Avenue, S.W.
Suite 203
South Charleston, West Virginia 25303

Public Employees' Insurance Agency
Building 5, Room 1001
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305

Workers' Compensation Fund
c/o Insurance Commission
1124 Smith Street
Charleston, West Virginia 25301

NOTE 15**COMMITMENTS AND CONTINGENCIES****Environmental Protection Claims**

The State, through the Department of Environmental Protection (DEP), maintains several environmental protection programs including a bonding program for coal operators for mine reclamation, abandoned oil and gas well bonding program, a Landfill Closure Assistance Program (LCAP) and an underground storage tank program. Under such programs, the State charges various fees, premiums, and other assessments, and sets bonding amounts that operators are required to maintain to ensure that funds are available in the event that the operator is unable to fulfill its environmental protection responsibilities. Based upon the State's estimate of the liability for incurred losses under the programs, the bonding amounts and funding structures established by the State have proven inadequate to fund the actual costs of environmental protection that the State has incurred in acceptance of the related insurance risk. As a result, the State has been required at various times to increase fees and bonding rates. Administrative changes in permitting regulations governing the industries and businesses benefiting from the State's maintenance of such environmental protection programs are constantly under review.

Management has estimated the total cost of these reclamation efforts to approximate \$424.6 million at June 30, 2006. Approximately \$30 million is available to pay current reclamation costs. Because it is not expected that the remaining estimated reclamation costs will be liquidated by expendable available financial resources, a \$394.6 million obligation is reported as a noncurrent liability in the governmental activities on the statement of net assets. As such, the State has recorded the following liabilities related to the above programs at June 30, 2006, (expressed in thousands):

Mine Reclamation Program	\$307,200
Oil and Gas Well Program	27,775
Landfill Closure Assistance Program	81,472
Underground Storage Tanks	<u>8,113</u>
Total Environmental Liability	<u>424,560</u>
Less Current Portion	(30,009)
Environmental Liability, Net of Current Portion	<u>\$394,551</u>

Mine Reclamation Program

The Special Reclamation Program (mine reclamation program) was created to enable compliance with a federal mandate that allows the State to operate an alternative bonding program to ensure that mining sites are reclaimed in accordance with federal and State regulations. This program created funds for reclamation costs if the operator does not perform the reclamation and the respective bond is forfeited by the operator. In addition, the State also accrues for active water treatment sites under this program. The State's estimated liability for these water treatment sites assumes a 20-year treatment period until the sites are properly reclaimed since the treatment costs beyond a 20-year period cannot be reasonably estimated. The actual length of water treatment and the actual ultimate liability could differ significantly from this estimate.

The costs associated with this program are offset by operator bonds, as previously mentioned, and a tax imposed on clean mined coal, currently seven cents per ton. The Special Reclamation Fund plans to make expenditures for reclamation and water treatment systems as funding becomes available. The Legislature further established a Special Reclamation Fund Advisory Council (the Council). The Council's role is to develop a financial plan that ensures long-term stability of the special reclamation program. The Legislature further requires actuarial studies of the fund's fiscal soundness every two years, with the first study completed in September 2005.

As of June 30, 2006, the liability associated with this program is approximately \$307 million discounted using a 2.5% discount rate. The undiscounted liability is approximately \$382 million as of June 30, 2006. The 2005 DEP actuarial study mentioned above included the estimated cash flows information necessary for discounting. The cash flows are currently projected out 20 years since an estimate beyond a 20-year period cannot be reasonably estimated. Given the long-term nature of this obligation and common practice in the private sector for asset retirement obligations, management deemed that it is preferable to record this obligation on a discounted basis since relevant cash flow information is available.

Oil and Gas Well Program

State Code states that oil and gas wells that are orphaned and abandoned that are an immediate threat to the environment should be properly plugged or reclaimed as funds become available in the oil and gas reclamation fund. Therefore, the State currently records a liability for Class I oil and gas wells which represent an immediate threat to the environment. Class II oil and gas wells, representing a nonimmediate threat to the environment, are mandated to be plugged if resources become available. The plugging of Class III oil and gas wells may be deferred indefinitely. Due to financial resources not being available in the past, or any foreseen availability in the future, the probability of

available resources ever being used to plug Class II or III wells is remote. As of June 30, 2006, this liability estimated at \$28 million is recorded on an undiscounted basis since the timing of future cash outflows cannot be estimated.

Landfill Closure Assistance Program (LCAP)

The LCAP was established to provide landfill closure assistance to owners/permittees of landfills that were required to cease operations pursuant to certain statutory closure deadlines for noncomposite lined facilities. The program designs and constructs all closure-related activities necessary to provide sufficient leachate management, sediment and erosion control, gas management, groundwater monitoring and final cover cap on noncomposite lined landfills, as funds are available. The LCAP is closed to new applications and one landfill has been added to the original inventory by Legislative process. As of June 30, 2006, the liability, discounted at 2.5%, is estimated at \$81 million and is projected to be paid through fiscal year 2016. The undiscounted liability is approximately \$107 million as of June 30, 2006. In prior years, the liability associated with LCAP was recorded on an undiscounted basis as the cash flow could not be reasonably estimated. Similar to the mining reclamation described above, given the longer term nature of this obligation and common practice in the private sector for asset retirement obligations, management deemed that it was preferable to change the method of accounting for this obligation to a discounted basis since relevant cash flow information is now available. This change in accounting principle is inseparable from the change in accounting estimate. Accordingly, the impact of the discounting has been recognized in the current period as part of the change in estimate.

In addition, the State, through the Solid Waste Management Board (the Board), operated one landfill that was closed in 1993. The Board made an application through the Department of Environmental Protection for closure assistance from the LCAP. The Board's application was accepted by the LCAP and since then the LCAP has paid the landfill closure costs. The Board continues to pay for certain postclosure monitoring costs, estimated to be \$203,000 over the next 25 years, which are recorded as a postclosure care liability of the Board in the financial statements of the State's proprietary discretely presented component units. The remaining liabilities for postclosure assistance under the LCAP are estimated at \$1.2 million.

Underground Storage Tank Program

The insurance fund for the operators of the underground storage tanks has discontinued accepting new operators into the fund. In response to a lawsuit filed against the fund, the fund's assets have largely been paid out on a pro rata share to those insured. DEP continues to pursue additional sources of money from the Governor and the Legislature, and most

recently requested \$8 million in a supplemental appropriation for FY 2007 that will allow the insured sites to be remediated in an approved voluntary remediation plan or other cost-effective manner. DEP's plan also requires the claimants to submit a schedule for the completion of the work, and it is DEP's objective to have a clearly determined date by which remediation will be accomplished at all sites and no further reimbursements required. In this regard, it should be noted that five of 58 sites insured have been issued "no further action" letters, meaning they have been cleaned up to the required standards and will no longer incur additional costs. DEP believes requiring these sites to participate in an approved plan that requires the most cost-effective method of cleanup will result in an overall cost savings to the State and still protect the public health and environment. As of June 30, 2006, \$8 million has been recorded as a liability in the accompanying financial statements.

The nature of the environmental liabilities requires the use of estimates and assumptions by management. Accordingly, it is at least reasonably possible that a significant change in the estimate will occur in the near term resulting from various factors including inflation, deflation, technology, or assumption changes, or changes in applicable laws or regulations.

Other Contingencies

In addition to the \$424.6 million in environmental protection claims, the State has recorded an obligation in the amount of \$109.6 million for the payment of other contingencies. Such other contingencies include, but are not limited to, claims assessed against the State for property damage and personal injury, alleged torts, alleged breaches of contract, and other alleged violations of state and federal laws and regulations. These claims are based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Certain other claims may be covered by the State's insurance carrier under its general liability or medical malpractice coverage.

In an action brought by the United States of America versus the State, the United States prevailed on its claim that the State owed \$11.9 million to the federal government, attributable to overcharges made to various agencies for the employees' share of retirement contributions made by the U.S. Government on behalf of federally funded State employees. At issue is accrued interest which has been assessed by the U.S. Department of Health and Human Services (DHHS) on the principal amount. The interest assessment was set aside but DHHS has filed a motion for reconsideration. Exposure is hard to quantify at this time. The State intends to vigorously contest the case; however, the potential exposure for this case should the State be unsuccessful is estimated by management to be \$47 million. As of June 30, 2006, a \$47 million liability related to this matter has been accrued.

Two administrative petitions are pending before the CPRB by and on behalf of the members of the 42nd through the 45th Cadet Classes of the West Virginia State Police, each of whom are seeking to be moved from the West Virginia State Police Retirement System (Plan B), to the more financially advantageous West Virginia Public Safety Death, Disability, and Retirement Fund (Plan A). The financial impact of an administrative or judicial ruling conferring some or all of the relief sought by the petitioners had been estimated to increase the liabilities in the West Virginia Public Safety Death, Disability, and Retirement Fund by approximately \$75 million. Moreover, transfers of participants from Plan B into Plan A in a manner contrary to plan provisions could raise plan qualification issues with the Internal Revenue Service. Plan disqualification could potentially result in a substantial tax consequences such as the plan's trust income being subject to tax, taxable employer contributions, taxable benefit distributions to participants and other negative ramifications.

On April 9, 2005, the West Virginia Legislature enacted House Bill 2984, which authorized the election for the potential merger and consolidation of the Teachers' Defined Contribution Retirement System (TDC) with the State Teachers' Retirement System (TRS). For the merger to occur, the law required a majority of the eligible voting members of the TDC to vote in favor of the merger in an election held between March 1, 2006, and March 12, 2006. The election results were certified by an independent accounting firm on April 4, 2006. During May 2006, a lawsuit was filed in Kanawha County Circuit Court by TDC members opposed to the merger. The judge ruled the merger was unconstitutional and the Consolidated Public Retirement Board and the Legislature are exploring alternatives. The impact to the State and the retirement systems has not been evaluated at this time.

Public Employees' Insurance Agency (PEIA) is the defendant in a dispute with its former prescription benefit manager (PBM), which essentially maintains that PEIA owes it approximately \$3 million based upon a shared savings provision in the contract. PEIA is also the plaintiff in a dispute with its former PBM maintaining the PBM did not live up to their contract and owes PEIA damages in an unspecified amount. The ultimate outcome of this matter cannot be determined at the present time. In the opinion of management, after consultation with legal counsel, resolution of this matter is not expected to have a material adverse effect on net assets.

There are several cases against the State Tax Department involving tax years 2003 through 2006. Collectively the estimated exposure for these cases is approximately \$145.4 million. These matters are being vigorously defended but recovery by the claimants is possible. As of June 30, 2006, a \$31.3 million liability has been accrued related to these matters.

An employer who has been granted self-insured status for workers' compensation insurance coverage may be required to post security with the WCF for an actuarially determined amount of their liabilities. To the extent a self-insured employer cannot meet its obligations under the Law, the WCF self-insured pools remain contingently liable for all policy benefits. Self-insured employers are considered joint and severally liable for the obligations of a defaulted self-insured employer. The WCF has estimated the liabilities of self-insurers who have not defaulted at \$293 million as of June 30, 2006, discounted at 5.0%. This estimate has been derived excluding any contingency margin that is included in the liability estimate used for security requirement purposes. At June 30, 2006, the security held by the WCF from self-insured employers was \$373 million, including \$21.9 million in security received from six self-insured employers who were required to post prospective security. The amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expenses because the likelihood of future self-insurer defaults has not been estimated.

It is not possible to predict with certainty the ultimate outcome of all lawsuits or claims pending or threatened against the State, including those discussed above, some of which may involve potentially significant amounts. Based on the current status of all legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's overall financial position. However, depending on the amount and timing of the resolution, some or all of these matters could materially affect the State's change in financial position or cash flows for a particular period.

Federal Grants

Payments received under the reimbursement arrangements with Medicaid are subject to retroactive audit and adjustment. Management believes that adequate provisions have been made for reasonable adjustments that may result from regulatory reviews and disallowed costs. However, laws and regulations governing this program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near term. Management believes it is in compliance with all applicable laws and regulations, except for the matter discussed in the paragraph below, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicaid program.

State management discovered an error in its payment formula for school-based health service payments. This matter is currently under review by certain government agencies. State management is of the opinion that the effect of these reviews will not be material to the financial position of the State. Based on management's best estimate, approximately \$13 million has been accrued at June 30, 2006; however, management is unable to quantify the ultimate amount that it may need to repay the federal government and no amount to date has been specified by the reviewing government agencies.

State management discovered certain errors and issues regarding a potential liability to the federal government. This matter is currently under review by certain State government agencies. As a result of the review, WORKFORCE West Virginia has recorded an estimated liability in the amount of approximately \$6.5 million which management believes is adequate to cover the amounts which will be required to be repaid to the federal government. This liability has resulted from a number of events that have involved the WORKFORCE West Virginia, the former Bureau of Employment Programs, the former Governor's Workforce Investment Division, and seven subrecipient Workforce Investment Boards. The issues identified relate to the overexpenditure of federal grant funds, insufficient supporting documentation for qualifying expenditures charged to federal grants, improper charging of federal grant funds for non-allowable costs, and a lack of unrestricted monies to cover administrative costs related to the programs. In addition to these liabilities, \$3.3 million has been committed to fund existing contracts and subrecipient grant awards that are in excess of available federal grant funding.

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and other federal awards. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for allowable purposes. The State provides for estimates of any material disallowance arising in connection with the operation of these federally funded programs as such amounts become reasonably estimable. Federal awards are subject to financial and compliance audits under either the federal Single Audit Act or by grantor agencies of the federal government or their designees. The ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits and the related impact on the financial statements of the State or its component units is unknown. The ultimate resolution of the regulatory review process could materially impact the State's future change in financial position or cash flows in a particular period.

Arbitrage Rebates

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates which are applicable to portions of the primary government and most of the discretely presented component units. Arbitrage rebate liabilities have been recorded in the financial statements under accrued and other liabilities, and the respective agencies have reserved estimated amounts for their future payment.

Construction and Other Commitments

(Expressed in Thousands)

	<u>Amount Committed</u>	<u>Commitment</u>
Governmental Funds:		
Transportation	\$652,552	Construction
School Building Authority	228,183	Acquisition, construction and maintenance grants to county school boards
West Virginia Infrastructure and Jobs Development Council	33,566	Funding of water and economic development projects
Enterprise Funds:		
Water Pollution Control Revolving Fund	21,426	Committed for loans
Drinking Water Treatment Fund	13,492	Lending consistent with Safe Drinking Water Act
Discretely Presented Component Units:		
Economic Development Authority	50,998	Committed for loans
Parkway, Economic Development, and Tourism Authority	12,728	Turnpike improvements
Regional Jail Authority	213	Construction
Higher Education	115,284	Construction
Educational Broadcasting Authority	2,510	Transmitter improvements

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 24 years. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. The total payments for steam purchased under the agreement were approximately \$11.1 million in 2006. Payments in future years will be dependent on actual operating costs and other cost indices in those years.

The West Virginia Providing Real Opportunities for Maximizing In-State Student Excellence (PROMISE) scholarship program provides scholarships to students within the West Virginia secondary education system who meet the scholarship requirements. The basic scholarship requirements include maintaining a 3.0 grade average, receiving an ACT score of 21, and enrolling in a college or university in West Virginia. The program will pay for tuition and fees, and had \$533 thousand at June 30, 2006, to fund the program obligations. Subsequent to year-end, the program received \$27 million from the Lottery and \$8.5 million in general revenue.

NOTE 16

SUBSEQUENT EVENTS

On August 1, 2006, the Housing Development Fund redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of \$8,615,000.

The Department of Transportation issued revenue bonds in the amount of \$78 million in October 2006. It is anticipated that another estimated \$95 million will be issued during March 2007. These bonds will be revenue bonds and the debt service payments will be funded through federal aid revenue.

During April 2007, the School Building Authority plans to issue Capital Improvement Refunding Revenue Bonds, 2007 Series A, in the amount of \$186,325,000. The interest rate for this bond refunding is 4.05%, and is being issued to refund certain 1997 series outstanding bonds. This bond will be secured by the same pledge of monies appropriated by the West Virginia State Legislature for the 1997 series bonds.



Required Supplementary Information (RSI)

Budgetary Comparison
Schedule

Notes to RSI

Budget-to-GAAP
Reconciliation

Pension Information



**Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	General Revenue Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes:				
Personal Income	\$1,152,500	\$1,239,000	\$1,297,720	\$ 58,720
Consumer Sales	972,300	991,000	1,012,450	21,450
Severance	248,000	302,000	314,727	12,727
Corporate Income/Business Franchise	244,500	308,000	347,570	39,570
Business and Occupation	178,000	184,000	185,457	1,457
Gasoline and Motor Fuel	—	—	—	—
Automobile Privilege	—	—	—	—
Other	331,800	348,750	348,805	55
Excess Lottery Transfer	77,900	77,900	78,730	830
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	13,200	12,900	11,456	(1,444)
Departmental Collections	15,100	15,100	13,834	(1,266)
Investment Earnings	13,000	26,000	34,411	8,411
Other	10,600	15,200	16,242	1,042
Industrial Access Road Transfer	—	—	—	—
Total Revenues	<u>3,256,900</u>	<u>3,519,850</u>	<u>3,661,402</u>	<u>141,552</u>
Expenditures:				
Legislature	35,016	35,016	20,608	14,408
Judicial	82,364	84,150	82,712	1,438
Executive	41,853	42,195	31,254	10,941
Administration	57,116	242,510	234,977	7,533
Commerce	50,208	65,385	54,376	11,009
Environmental Protection	7,330	7,385	6,913	472
Employment Programs	—	—	—	—
Education	1,946,790	2,003,680	1,998,958	4,722
Health and Human Resources	685,068	693,680	678,115	15,565
Military Affairs and Public Safety	250,637	280,028	233,978	46,050
Revenue	25,730	26,580	20,369	6,211
Transportation	7,338	7,343	4,765	2,578
Senior Services	887	889	873	16
Regulatory Boards and Commissions	—	—	—	—
Total Expenditures	<u>3,190,337</u>	<u>3,488,841</u>	<u>3,367,898</u>	<u>120,943</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures Current Year	66,563	31,009	293,504	262,495
Expenditures from Prior Year Appropriations	<u>341,712</u>	<u>341,712</u>	<u>191,514</u>	<u>150,198</u>
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	(275,149)	(310,703)	101,990	412,693
Budgetary Fund Balance, Beginning of Year, as Adjusted	<u>341,997</u>	<u>341,997</u>	<u>341,997</u>	—
Budgetary Fund Balance, End of Year	<u>\$ 66,848</u>	<u>\$ 31,294</u>	<u>\$ 443,987</u>	<u>\$412,693</u>

Federal Revenue				State Road			
Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	318,000	318,000	320,757	2,757
—	—	—	—	182,665	182,665	171,479	(11,186)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
3,475,386	3,561,590	2,580,033	(981,557)	458,818	491,500	392,821	(98,679)
—	—	—	—	85,160	85,160	86,976	1,816
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	11,479	11,479	11,860	381
—	—	—	—	(3,000)	(3,000)	(3,005)	(5)
<u>3,475,386</u>	<u>3,561,590</u>	<u>2,580,033</u>	<u>(981,557)</u>	<u>1,053,122</u>	<u>1,085,804</u>	<u>980,888</u>	<u>(104,916)</u>
1,269	1,269	545	724	—	—	—	—
1,150	1,150	202	948	—	—	—	—
57,101	61,665	38,184	23,481	—	—	—	—
34,017	38,128	33,920	4,208	—	—	—	—
92,773	94,077	50,032	44,045	—	—	—	—
98,015	108,363	49,436	58,927	—	—	—	—
4,258	4,258	3,261	997	—	—	—	—
511,886	512,801	383,123	129,678	—	—	—	—
2,500,512	2,503,094	1,940,674	562,420	—	—	—	—
167,902	179,271	56,366	122,905	—	—	—	—
975	975	513	462	—	—	—	—
23,480	23,693	17,385	6,308	1,063,752	1,104,646	1,032,013	72,633
14,550	14,563	12,296	2,267	—	—	—	—
2,616	2,773	1,685	1,088	—	—	—	—
<u>3,510,504</u>	<u>3,546,080</u>	<u>2,587,622</u>	<u>958,458</u>	<u>1,063,752</u>	<u>1,104,646</u>	<u>1,032,013</u>	<u>72,633</u>
(35,118)	15,510	(7,589)	(23,099)	(10,630)	(18,842)	(51,125)	(32,283)
—	—	—	—	—	—	—	—
(35,118)	15,510	(7,589)	(23,099)	(10,630)	(18,842)	(51,125)	(32,283)
41,290	41,290	41,290	—	134,567	134,567	134,567	—
<u>\$ 6,172</u>	<u>\$ 56,800</u>	<u>\$ 33,701</u>	<u>\$ (23,099)</u>	<u>\$ 123,937</u>	<u>\$ 115,725</u>	<u>\$ 83,442</u>	<u>\$ (32,283)</u>

(Continued)

**Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)
(Continued)**

	<u>Special Revenue</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:				
Taxes:				
Personal Income	\$ —	\$ —	\$ —	\$ —
Consumer Sales	—	—	—	—
Severance	—	—	—	—
Corporate Income/Business Franchise	—	—	—	—
Business and Occupation	—	—	—	—
Gasoline and Motor Carrier	—	—	—	—
Automobile Privilege	—	—	—	—
Other	—	—	—	—
Excess Lottery Transfer	—	—	—	—
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	—	—	—	—
Departmental Collections	962,494	859,472	1,362,625	503,153
Investment Earnings	—	—	—	—
Other	—	—	—	—
Industrial Access Road Transfer	—	—	—	—
Total Revenues	<u>962,494</u>	<u>859,472</u>	<u>1,362,625</u>	<u>503,153</u>
Expenditures:				
Legislature	4,047	3,269	1,405	1,864
Judicial	—	—	—	—
Executive	22,045	22,358	17,413	4,945
Administration	57,972	60,844	55,782	5,062
Commerce	106,875	118,210	90,214	27,996
Environmental Protection	48,062	55,535	33,452	22,083
Employment Programs	—	—	—	—
Education	218,635	219,844	201,249	18,595
Health and Human Resources	347,970	399,420	352,995	46,425
Military Affairs and Public Safety	23,586	25,125	18,550	6,575
Revenue	674,748	808,476	414,081	394,395
Transportation	7,304	7,396	3,915	3,481
Senior Services	38,697	38,697	37,682	1,015
Regulatory Boards and Commissions	602,345	603,525	544,849	58,676
Total Expenditures	<u>2,152,286</u>	<u>2,362,699</u>	<u>1,771,587</u>	<u>591,112</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	(1,189,792)	(1,503,227)	(408,962)	1,094,265
Expenditures from Prior Year Appropriations	<u>119,810</u>	<u>119,810</u>	<u>66,237</u>	<u>53,573</u>
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,309,602)	(1,623,037)	(475,199)	1,147,838
Budgetary Fund Balance, Beginning of Year, as Adjusted	<u>1,498,059</u>	<u>1,498,059</u>	<u>1,498,059</u>	—
Budgetary Fund Balance, End of Year	<u>\$ 188,457</u>	<u>\$ (124,978)</u>	<u>\$1,022,860</u>	<u>\$1,147,838</u>

REQUIRED SUPPLEMENTARY INFORMATION

Notes to Required Supplementary Information Budgetary Reporting

The State's annual budget is prepared on a cash basis, modified only at year-end to allow for a 31-day period for the payment of vendor invoices for goods and services previously encumbered. Appropriations expire or lapse at the end of this period.

Budgetary Process

Appropriation requests for the upcoming fiscal year are submitted to the State Budget Office (Budget) by September 1. Budget conducts budget hearings and reviews revenue estimates for recommendation and preparation of the proposed budget. The Governor presents the proposed budget to the State Legislature in January. Included in that budget proposal is the Governor's official revenue estimate for the upcoming fiscal year. To maintain a balanced budget, the Legislature can appropriate expenditures only to the level of the Governor's official revenue estimate and prior year fund balance.

The Legislature also holds budget hearings, considers the effect of other proposed legislation, and gathers other information during its 60-day session which occurs January through March of each calendar year. During the last days of the legislative session, the Legislature passes the budget and the Governor approves, vetoes, or allows the budget to become law without signing.

In the event that there is a shortfall of General Revenue Fund collections during the year, the Governor may impose a spending reduction. In 1994, the Legislature created a Revenue Shortfall Reserve Fund (Rainy Day Fund) designed to prevent a spending reduction. By law, the first 50 percent of the General Revenue Fund surplus for a fiscal year is set aside in a reserve or Rainy Day Fund not to exceed ten percent of the total appropriations from General Revenue for that year. This fund may be used to offset a shortfall of revenues which would otherwise require the Governor to impose expenditure reductions.

In the event of higher than estimated revenue collections throughout the year, supplemental appropriation requests may be made to the Legislature. In 2006, appropriations from General Revenue were increased approximately \$299 million for supplemental appropriations. Appropriated Special Revenue and Federal Funds were increased by total supplemental appropriations of \$272.4 million. During the budget process, the Legislature may also decide to reappropriate certain unexpended budgetary activities for expenditure in the next year. Accounts reappropriated generally relate to special activities or projects that may require several years to complete. Reappropriated prior year general revenue appropriations of \$229.9 are reported as "Expenditures From Prior Year Appropriations."

In addition to the above, in the event of a General Revenue budget surplus from the previous fiscal year, additional appropriation requests may be made to the Legislature. Appropriations from 2005 General Revenue were increased approximately \$111.8 million for surplus appropriations. The \$111.8 million surplus appropriations are also reported as “Expenditures From Prior Year Appropriations.”

After the budget is legally enacted, certain appropriations from General Revenue may be altered or transferred within each Cabinet Secretariat. The transfers may not exceed more than five percent of the funds appropriated to any one agency or board, and are altered at the budgetary activity level. Other specific transfers are allowed in all the budgetary funds from the object classes of personal services and unclassified budget object classes to employee benefits or from personal services and employee benefits to other budget object classes, and are not limited to Secretariat authority.

The budget laws provide for the ability of the Governor to increase the appropriations of the budgetary Appropriated Special Revenue Funds and the Federal Funds when the Legislature is not in session. Detailed spending plans, identification of new revenue sources, and justifications are required for review and approval.

Budgetary Control

The State Legislature annually appropriates those general government activities determined to be important to controlling the financial operations of the State. The Legislature appropriates expenditures for those defined budgetary activities, often further defined by the object classes of personal services, employee benefits, equipment repairs and alterations, or unclassified.

The State’s accounting system controls expenditures for appropriated accounts at the budgetary activity level on a predefined quarterly basis. The State Auditor exercises control over spending at the budgetary activity level on an annual appropriation basis.

Budget further monitors the rate and nature of spending for all budgetary accounts by requiring the organization responsible for the budgeted activities to submit annual spending plans reflecting further details on their expected quarterly spending patterns and the types of expenditures for the budgeted accounts. From these spending plans, Budget monitors and limits expenditures within predefined quarterly allotments. Expenditures during a quarter may not exceed the amount of the approved allotment, unless the Governor approves the expenditure of a larger amount. Any amounts remaining unexpended at the close of a quarter are available for reallocation and expenditure during any succeeding quarter of the same fiscal year.

Budget also utilizes encumbrance accounting to control purchase orders and other commitments. Under the budgetary process, unexpended appropriations and encumbrances expire at the end of the 31-day period following each fiscal year-end. All unpaid invoices and claims after that date must be submitted by the vendor to the State Court of Claims, unless the related activity has been reappropriated by the Legislature.

Budgetary Funds

The State uses four budgetary fund groups to summarize accounts or activities which have been legally appropriated. The budgetary fund groups are described as follows:

General Revenue Fund – consists primarily of the major tax revenues of the State such as Consumer Sales Tax, Personal Income Tax, Business and Occupation Tax, Corporate Net Income Tax, and Severance Tax. The General Revenue Fund supports the operation of certain primary government activities and certain other agencies.

Federal Fund – consists of any financial awards made to any State agency by the U.S. Government, whether a loan, grant, subsidy, augmentation, reimbursement or any other form of such awards, including state funds used for federal matching purposes.

Road Fund – consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license fees, and all other revenue derived from motor vehicles or motor fuel. The Road Fund is appropriated by the Legislature and used solely for construction, repair, and maintenance of public highways, and also for the payment of interest and principal on all road bonds.

Appropriated Special Revenue Fund – consists of individual accounts created for special purposes. These accounts generate revenue derived from established rates or fees. The spending within these accounts is limited to the amount collected or the amount appropriated by the Legislature, whichever is less.

The State has other special revenue accounts which are not appropriated. These accounts are special accounts which derive revenues from special fees or charges, or exist for internal agency purposes such as payroll clearing accounts, cost allocations, etc., but are not subject to specific legislative appropriation. Accordingly, these accounts have not been reported in the State's budgetary comparison schedule.

2006 Budgetary Reporting

The State's budgetary General Revenue Fund surplus for the year ended June 30, 2006, is calculated as follows (expressed in thousands):

Preliminary General Revenue Fund current year excess of revenues over expenditures as reflected on Budgetary Comparison Schedule	\$293,504
Less accounts reappropriated for spending in FY 2007	<u>(115,870)</u>
Accumulated surplus	177,634
Less amount to be transferred to Revenue Shortfall Reserve Fund	<u>(88,817)</u>
General Revenue Fund FY 2006 surplus available for appropriation in FY 2007	<u>\$ 88,817</u>

In August 2006 after the close of the fiscal year, \$88,817,000 from the State's General Revenue Fund surplus for the year was transferred to the Reserve Fund, which represents the statutory requirement to transfer 50% of the budgetary surplus at the end of the fiscal year.

The State's budgetary General Revenue Fund and Appropriated Special Revenue Fund balances at July 1, 2005, have been restated as follows (expressed in thousands):

General Revenue Fund:

Beginning Fund Balance	\$333,209
Prior Year Refunds	160
Transfer from Expired Funds	53,479
Less Transfer to Rainy Day Fund	<u>(44,851)</u>
Adjusted Beginning Fund Balance	<u>\$341,997</u>

Appropriated Special Revenue Fund:

Beginning Fund Balance	\$1,498,206
Adjustment to Include Other Appropriated Special Revenue	<u>(147)</u>
Adjusted Beginning Fund Balance	<u>\$1,498,059</u>

Budgetary Reporting and GAAP

Because the budgetary basis differs from accounting principles generally accepted in the United States, budget and actual amounts in the accompanying Budgetary Comparison Schedule are presented on the budgetary basis. A more detailed budgetary basis report, Supplementary Information to the State of West Virginia Comprehensive Annual Financial Report, is produced for internal purposes to demonstrate budgetary compliance and is available at the Financial Accounting and Reporting Section for public inspection. A reconciliation that compares the excess of revenues over expenditures on a budgetary basis for the year ended June 30, 2006, to the excess of revenues and other financing sources over expenditures and other financing uses presented in conformity with accounting principles generally accepted in the United States is set forth in the following schedule.

Required Supplementary Information
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	General Revenue Fund	Federal Fund	Road Fund	Appropriated Special Revenue Fund
SOURCES/INFLOWS OF RESOURCES				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 3,661,402	\$ 2,580,033	\$ 980,888	\$ 1,362,625
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP revenues	(3,080,179)	—	—	—
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(607,077)	—	(14,904)	—
Other Basis of Accounting Difference	260,253	—	68,256	—
Reclassifications:				
Prior year General Revenue Refunds	160	—	—	—
Special Revenue and Other Funds expired into the budgetary General Revenue Fund	53,479	—	—	—
Nonappropriated Budgetary Fund's revenue included as revenue/transfers in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,569,692	—	42,893	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	513,734	—	2,205	(1,362,625)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	<u>2,483,283</u>	<u>(2,580,033)</u>	<u>17,507</u>	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 6,854,747</u>	<u>\$ —</u>	<u>\$1,096,845</u>	<u>\$ —</u>
USES/OUTFLOWS OF RESOURCES				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,559,412	\$ 2,587,622	\$1,032,013	\$ 1,837,824
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP expenditures	(3,080,179)	—	—	—
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(166,881)	—	(6,772)	—
Other Basis of Accounting Difference	125,765	—	10,502	—
Reclassifications:				
Nonappropriated Budgetary Fund's expenditures/transfers out included as expense in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,286,464	—	28,506	—
Budgetary general revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	—	—	4,113	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	548,427	—	3,915	(1,837,824)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	<u>2,494,290</u>	<u>(2,587,622)</u>	<u>17,385</u>	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 6,767,298</u>	<u>\$ —</u>	<u>\$1,089,662</u>	<u>\$ —</u>

Required Supplementary Information

Pension Plans

Schedule of Funding Progress

(Expressed in Thousands)

	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Excess of Assets Over) Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (Excess) as a Percentage of Covered Payroll
<u>TRS</u>							
	2005	\$1,627,355	\$6,617,708	\$4,990,353	24.6%	\$735,614	678.4%
	2004	\$1,427,475	\$6,440,738	\$5,013,263	22.2%	\$784,415	639.1%
	2003	\$1,191,238	\$6,243,834	\$5,052,596	19.1%	\$832,919	606.6%
<u>PSDDRF</u>							
	2005	\$ 361,390	\$ 485,429	\$ 124,039	74.4%	\$ 11,252	1,102.4%
	2004	\$ 118,080	\$ 462,119	\$ 344,039	25.6%	\$ 12,273	2,803.2%
	2003	\$ 99,409	\$ 447,869	\$ 348,460	22.2%	\$ 13,496	2,581.9%
<u>SPRS</u>							
	2005	\$ 25,297	\$ 26,050	\$ 753	97.1%	\$ 14,311	5.3%
	2004	\$ 19,882	\$ 22,102	\$ 2,220	90.0%	\$ 13,233	16.8%
	2003	\$ 14,741	\$ 16,892	\$ 2,151	87.3%	\$ 11,449	18.8%
<u>JRS</u>							
	2005	\$ 74,757	\$ 90,528	\$ 15,771	82.6%	\$ 8,145	193.6%
	2004	\$ 63,559	\$ 85,778	\$ 22,219	74.1%	\$ 6,325	351.3%
	2003	\$ 52,779	\$ 96,709	\$ 43,930	54.6%	\$ 6,325	694.5%

REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
Pension Plans-Schedule of Funding Progress

The information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>PERS</u>	<u>TRS</u>	<u>PSDDRF</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>
Valuation date	July 1, 2005	July 1, 2005	July 1, 2005	July 1, 2005	July 1, 2005	July 1, 2005
Actuarial cost method	Entry age cost	Entry age cost	Entry age cost	Entry age cost	Entry age cost	Entry age cost
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Amortization method	Constant dollar	Constant percentage of payroll	Constant percentage of payroll	Constant dollar	Constant percentage of payroll	Constant dollar
Amortization period	Through FY 2035*	Through FY 2034	Through FY 2025	Through FY 2030	Through FY 2029*	Through FY 2018
Actuarial assumptions:						
Investment rate of return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected salary increases:						
Attributable to inflation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Attributable to merit	1.00%-3.00%	.5%-2.50%	1.75%-3.00%	1.75%-3.00%	1.50%-2.50%	1.50%
Postemployment benefit increases	None	None	3.75%	1%	None	4.50%
			Annual cost of living adjustment	Annual cost of living adjustment		

*Contribution rates are not sufficient to meet original amortization funding target.

Current Year Actuarial Changes

Significant changes in assumptions included in the July 1, 2005, actuarial valuations are as follows:

The State Legislature adopted compensation and benefit increases to the Judges' Retirement System effective July 1, 2005. Member contributions increased to 10.5% of compensation. It was 9.0% prior to July 1, 2005. A new benefit structure was established for Judges first appointed on or after July 2, 2005. The compensation and benefit increases, as well as the member contribution increase, are reflected in this valuation. The valuation does not incorporate the new benefit structure since no current members are impacted.

Note 12 has additional pension information. CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720.

Combining Financial Statements and Schedules

Nonmajor Funds
Governmental
Proprietary
Fiduciary

Nonmajor
Component Units



GOVERNMENTAL FUND TYPES - NONMAJOR

Special Revenue:

Special Revenue Funds are used to account for the receipt and use of specific revenues that are legally restricted to expenditures for specified purposes.

Debt Service:

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt principal and interest from governmental resources.

Capital Projects:

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. These funds consist of the following:

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

Education, Arts, Sciences, and Tourism Fund The Fund was established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State. The projects from this fund are complete. The remaining cash was transferred to the debt service accounts during the fiscal year.

Lease Purchase Account This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

Permanent Funds:

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific government programs, for the benefit of the government or its citizenry.

The Irreducible School Fund The Fund, which was constitutionally established, is required to maintain a minimum level of investments. All earnings from these investments are transferred to the General Fund for educational expenditures.

West Virginia Tobacco Settlement Medical Trust Fund Half the receipts from the National Master Tobacco Settlement Agreement were originally deposited into the Tobacco Settlement Medical Trust Fund and the earnings on the fund were originally to support certain health programs of the State. In March 2006, the Legislature enacted House Bill 4015, which dissolved the West Virginia Tobacco Settlement Medical Trust Fund and on June 9, 2006, all monies in the fund were transferred to the Revenue Shortfall Reserve Fund - Part B, created in the bill. The new fund is not a permanent fund.

West Virginia

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006 (Expressed in Thousands)

	<u>Special Revenue</u>	<u>Debt Service</u>
Assets:		
Cash and Cash Equivalents	\$174,719	\$106,509
Investments	35,292	23,023
Receivables, Net	7,099	1,233
Due from Other Governments	1,182	—
Due from Other Funds	248	1,000
Inventories	83	—
Restricted Assets:		
Cash and Cash Equivalents	<u>1,687</u>	<u>—</u>
Total Assets	<u>\$220,310</u>	<u>\$131,765</u>
Liabilities:		
Accounts Payable	\$ 7,241	\$ —
Accrued and Other Liabilities	37,097	—
Due to Other Governments	19,968	—
Due to Other Funds	512	—
Due to Component Units	<u>39</u>	<u>—</u>
Total Liabilities	<u>64,857</u>	<u>—</u>
Fund Balances:		
Reserved for:		
Inventories	83	—
Capital Projects	—	—
Debt Service	—	131,765
Program Administration	13,673	—
Permanent Funds	—	—
Unreserved	<u>141,697</u>	<u>—</u>
Total Fund Balances	<u>155,453</u>	<u>131,765</u>
Total Liabilities and Fund Balances	<u>\$220,310</u>	<u>\$131,765</u>

Capital Projects		Permanent Funds	
School Building Authority	Lease Purchase Account	Irreducible School	Total
\$207,741	\$39,503	\$1,879	\$530,351
4,975	—	—	63,290
—	55	7	8,394
—	—	—	1,182
—	—	—	1,248
—	—	—	83
—	—	—	1,687
<u>\$212,716</u>	<u>\$39,558</u>	<u>\$1,886</u>	<u>\$606,235</u>
\$ 12,770	\$ 2,297	\$ —	\$ 22,308
598	—	—	37,695
—	—	—	19,968
—	48	—	560
—	—	—	39
<u>13,368</u>	<u>2,345</u>	<u>—</u>	<u>80,570</u>
—	—	—	83
199,348	37,213	—	236,561
—	—	—	131,765
—	—	—	13,673
—	—	1,886	1,886
—	—	—	141,697
<u>199,348</u>	<u>37,213</u>	<u>1,886</u>	<u>525,665</u>
<u>\$212,716</u>	<u>\$39,558</u>	<u>\$1,886</u>	<u>\$606,235</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

		<u>Capital Projects</u>	
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>School Building Authority</u>
Revenues:			
Taxes:			
Other	\$ 4,000	\$ —	\$ —
Intergovernmental	110,482	—	—
Licenses, Permits, and Fees	103,734	—	—
Charges for Services	—	—	—
Investment Earnings	7,288	4,445	7,988
Other	<u>2,518</u>	<u>—</u>	<u>—</u>
Total Revenues	<u>228,022</u>	<u>4,445</u>	<u>7,988</u>
Expenditures:			
Legislative	2,590	—	—
Executive	2	—	—
Administration	—	—	—
Environmental Protection	104,615	—	—
Employment Programs	75,438	—	—
Education	1,035	—	81,677
Military Affairs and Public Safety	4,330	—	—
Revenue	8,276	—	—
Regulatory Boards and Commissions	22,529	—	—
Capital Outlay	—	—	—
Debt Service:			
Principal	—	54,507	—
Interest	<u>—</u>	<u>66,690</u>	<u>—</u>
Total Expenditures	<u>218,815</u>	<u>121,197</u>	<u>81,677</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,207</u>	<u>(116,752)</u>	<u>(73,689)</u>
Other Financing Sources (Uses):			
Face Value of Long-Term Debt Issued	—	54,800	—
Premiums (Discounts) on Bonds Issued	—	697	—
Capital Lease Acquisition	—	—	—
Payments to Refunded Bond Escrow Agent	—	(56,062)	—
Transfers In	21,024	125,642	51,481
Transfers Out	<u>(17,726)</u>	<u>(1,470)</u>	<u>—</u>
Total Other Financing Sources (Uses)	<u>3,298</u>	<u>123,607</u>	<u>51,481</u>
Net Change in Fund Balances	12,505	6,855	(22,208)
Fund Balances, Beginning of Year, as Restated	<u>142,948</u>	<u>124,910</u>	<u>221,556</u>
Fund Balances, End of Year	<u>\$155,453</u>	<u>\$131,765</u>	<u>\$199,348</u>

Capital Projects		Permanent Funds		
Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Irreducible School	Tobacco Settlement Medical Trust Fund	Total
\$ —	\$ —	\$ —	\$ —	\$ 4,000
—	—	—	—	110,482
—	—	—	—	103,734
—	—	10	—	10
1	1,380	67	20,741	41,910
<u>—</u>	<u>—</u>	<u>744</u>	<u>342</u>	<u>3,604</u>
<u>1</u>	<u>1,380</u>	<u>821</u>	<u>21,083</u>	<u>263,740</u>
—	—	—	—	2,590
—	—	—	—	2
—	74	—	—	74
—	3	—	—	104,618
—	—	—	—	75,438
—	—	—	—	82,712
—	—	—	—	4,330
—	—	—	—	8,276
—	—	—	—	22,529
—	29,050	—	—	29,050
—	—	—	—	54,507
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66,690</u>
<u>—</u>	<u>29,127</u>	<u>—</u>	<u>—</u>	<u>450,816</u>
<u>1</u>	<u>(27,747)</u>	<u>821</u>	<u>21,083</u>	<u>(187,076)</u>
—	—	—	—	54,800
—	—	—	—	697
—	10,602	—	—	10,602
—	—	—	—	(56,062)
—	180	62	833	199,222
<u>(87)</u>	<u>(623)</u>	<u>(427)</u>	<u>(255,696)</u>	<u>(276,029)</u>
<u>(87)</u>	<u>10,159</u>	<u>(365)</u>	<u>(254,863)</u>	<u>(66,770)</u>
<u>(86)</u>	<u>(17,588)</u>	<u>456</u>	<u>(233,780)</u>	<u>(253,846)</u>
<u>86</u>	<u>54,801</u>	<u>1,430</u>	<u>233,780</u>	<u>779,511</u>
<u>\$ —</u>	<u>\$ 37,213</u>	<u>\$1,886</u>	<u>\$ —</u>	<u>\$ 525,665</u>

SPECIAL REVENUE FUNDS

Nonmajor Funds

Environmental Protection The Fund consists of various programs intended to maintain and improve the environmental quality of the State and its natural resources. Included in this Fund are programs addressing the following: Underground Storage Tanks, Groundwater, Solid Waste Environmental Response and Enforcement, Special Reclamation, Mines and Minerals, Dam Safety, Hazardous Waste Emergency Response, Oil and Gas Reclamation, Oil and Gas Operating Permit and Processing, as well as other miscellaneous programs.

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

Public Service Commission The Commission is responsible for appraising and balancing the interests of current and future utility service customers, the State's economy, and the utilities subject to its jurisdiction. It is directed to identify, explore and consider the potential benefits and risks associated with emerging and state-of-the-art concepts in utility management, rate design and conservation.

Crime Victims' Compensation The intent of the Fund is to provide partial relief to the innocent victims of crime, including claimant's attorneys and witnesses, for the failure of the State to fully provide for the safety of its citizens and the inviolability of their property. To fund this program, individuals convicted of any felony or misdemeanor, excluding non-moving traffic violations, must pay an additional amount over and above ordinary court costs.

Insurance Commission The Commission is responsible for promoting a competitive and solvent insurance market of domestic, foreign, and alien insurers. Additionally, the Fund is authorized to promulgate and adopt and enforce such rules and regulations relating to insurance as are deemed necessary to protect and safeguard the interests of policyholders and the public.

Armory Board The Board is responsible for providing the facilities for the activities of the State's National Guard.

WORKFORCE West Virginia The Bureau of Employment Programs doing business as WORKFORCE West Virginia includes the Employment Service Division (ES) and the administrative activities of the Unemployment Compensation Division (UC). Local offices are operated throughout the State to serve those seeking and providing employment.

Wildlife Resources Fund The Fund is responsible for recognizing the inestimable importance of conserving the wildlife resources of West Virginia. In addition, the fund provides the opportunity for citizens and residents of the State to invest in the future of its wildlife resources. The Fund is financed from the proceeds of the sale of lifetime hunting and fishing licenses, as well as proceeds from gifts, grants, and contributions. The interest and principal of this fund shall be used only for the purpose of supporting wildlife conservation programs of the State.

Children's Fund The Fund is for the sole purpose of awarding grants, loans, and loan guaranties for child abuse and neglect prevention activities.

**Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006
(Expressed in Thousands)**

	Environmental Protection	School Building Authority	Public Service Commission	Crime Victims' Compensation
Assets:				
Cash and Cash Equivalents	\$123,173	\$96	\$15,035	\$6,412
Investments	—	—	—	—
Receivables, Net	3,998	—	278	20
Due from Other Governments	—	—	1,182	—
Due from Other Funds	46	—	—	—
Inventories	—	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	<u>1,687</u>	—	—	—
Total Assets	<u>\$128,904</u>	<u>\$96</u>	<u>\$16,495</u>	<u>\$6,432</u>
Liabilities:				
Accounts Payable	\$ 5,488	\$20	\$ 811	1
Accrued and Other Liabilities	32,260	—	243	—
Due to Other Governments	8,584	—	4,884	—
Due to Other Funds	194	1	176	—
Due to Component Units	<u>—</u>	—	—	—
Total Liabilities	<u>46,526</u>	<u>21</u>	<u>6,114</u>	<u>1</u>
Fund Balances:				
Reserved for:				
Inventories	—	—	—	—
Program Administration	—	—	—	—
Unreserved (Deficit)	<u>82,378</u>	<u>75</u>	<u>10,381</u>	<u>6,431</u>
Total Fund Balances	<u>82,378</u>	<u>75</u>	<u>10,381</u>	<u>6,431</u>
Total Liabilities and Fund Balances	<u>\$128,904</u>	<u>\$96</u>	<u>\$16,495</u>	<u>\$6,432</u>

<u>Insurance Commission</u>	<u>Armory Board</u>	<u>WORKFORCE West Virginia</u>	<u>Wildlife Resources Fund</u>	<u>Children's Fund</u>	<u>Total</u>
\$23,888	\$2,285	\$ 2,770	\$ 4	\$1,056	\$174,719
—	—	—	35,292	—	35,292
442	99	2,258	—	4	7,099
—	—	—	—	—	1,182
68	100	34	—	—	248
—	—	83	—	—	83
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,687</u>
<u>\$24,398</u>	<u>\$2,484</u>	<u>\$ 5,145</u>	<u>\$35,296</u>	<u>\$1,060</u>	<u>\$220,310</u>
\$ 182	\$ 109	\$ 630	\$ —	\$ —	\$ 7,241
194	—	4,400	—	—	37,097
—	—	6,500	—	—	19,968
136	5	—	—	—	512
<u>—</u>	<u>2</u>	<u>37</u>	<u>—</u>	<u>—</u>	<u>39</u>
<u>512</u>	<u>116</u>	<u>11,567</u>	<u>—</u>	<u>—</u>	<u>64,857</u>
—	—	83	—	—	83
—	—	13,673	—	—	13,673
<u>23,886</u>	<u>2,368</u>	<u>(20,178)</u>	<u>35,296</u>	<u>1,060</u>	<u>141,697</u>
<u>23,886</u>	<u>2,368</u>	<u>(6,422)</u>	<u>35,296</u>	<u>1,060</u>	<u>155,453</u>
<u>\$24,398</u>	<u>\$2,484</u>	<u>\$ 5,145</u>	<u>\$35,296</u>	<u>\$1,060</u>	<u>\$220,310</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	<u>Environmental Protection</u>	<u>School Building Authority</u>	<u>Public Service Commission</u>	<u>Crime Victims' Compensation</u>
Revenues:				
Taxes:				
Other	\$ 4,000	\$ —	\$ —	\$ —
Intergovernmental	42,161	—	2,023	545
Licenses, Permits, and Fees	56,380	—	21,169	1,824
Investment Earnings and Losses	3,856	—	—	132
Other	<u>2,446</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Revenues	<u>108,843</u>	<u>—</u>	<u>23,192</u>	<u>2,501</u>
Expenditures:				
Legislature	—	—	—	2,590
Executive	—	—	—	—
Environmental Protection	104,615	—	—	—
Employment Programs	—	—	—	—
Education	—	1,035	—	—
Military Affairs and Public Safety	—	—	—	—
Revenue	—	—	—	—
Regulatory Boards and Commissions	<u>—</u>	<u>—</u>	<u>22,529</u>	<u>—</u>
Total Expenditures	<u>104,615</u>	<u>1,035</u>	<u>22,529</u>	<u>2,590</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,228</u>	<u>(1,035)</u>	<u>663</u>	<u>(89)</u>
Other Financing Sources (Uses):				
Transfers In	4,434	1,000	4,074	—
Transfers Out	<u>(5,998)</u>	<u>—</u>	<u>(1,368)</u>	<u>(2)</u>
Total Other Financing Sources (Uses)	<u>(1,564)</u>	<u>1,000</u>	<u>2,706</u>	<u>(2)</u>
Net Change in Fund Balances	2,664	(35)	3,369	(91)
Fund Balances, Beginning of Year, as Restated	<u>79,714</u>	<u>110</u>	<u>7,012</u>	<u>6,522</u>
Fund Balances, End of Year	<u>\$ 82,378</u>	<u>\$ 75</u>	<u>\$10,381</u>	<u>\$6,431</u>

<u>Insurance Commission</u>	<u>Armory Board</u>	<u>WORKFORCE West Virginia</u>	<u>Wildlife Resources Fund</u>	<u>Children's Fund</u>	<u>Total</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,000
—	—	65,753	—	—	110,482
23,565	—	—	796	—	103,734
117	87	—	3,056	40	7,288
<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>	<u>66</u>	<u>2,518</u>
<u>23,682</u>	<u>87</u>	<u>65,753</u>	<u>3,858</u>	<u>106</u>	<u>228,022</u>
—	—	—	—	—	2,590
—	—	—	—	2	2
—	—	—	—	—	104,615
—	—	75,438	—	—	75,438
—	—	—	—	—	1,035
—	4,330	—	—	—	4,330
8,276	—	—	—	—	8,276
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,529</u>
<u>8,276</u>	<u>4,330</u>	<u>75,438</u>	<u>—</u>	<u>2</u>	<u>218,815</u>
<u>15,406</u>	<u>(4,243)</u>	<u>(9,685)</u>	<u>3,858</u>	<u>104</u>	<u>9,207</u>
1,219	4,400	5,897	—	—	21,024
<u>(7,089)</u>	<u>(13)</u>	<u>—</u>	<u>(3,206)</u>	<u>(50)</u>	<u>(17,726)</u>
<u>(5,870)</u>	<u>4,387</u>	<u>5,897</u>	<u>(3,206)</u>	<u>(50)</u>	<u>3,298</u>
9,536	144	(3,788)	652	54	12,505
<u>14,350</u>	<u>2,224</u>	<u>(2,634)</u>	<u>34,644</u>	<u>1,006</u>	<u>142,948</u>
<u>\$23,886</u>	<u>\$ 2,368</u>	<u>\$(6,422)</u>	<u>\$35,296</u>	<u>\$1,060</u>	<u>\$155,453</u>

DEBT SERVICE FUNDS

Nonmajor Funds

School Building Authority The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

West Virginia Infrastructure and Jobs Development Council The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

Education, Arts, Sciences, and Tourism Fund The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

Lease Purchase Account This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

Economic Development Project Fund The Fund is established to provide funds to finance a portion of the costs of construction, equipping, improving or maintaining economic development projects, capital improvement projects and infrastructure projects which promote economic development in the State.

**Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2006
(Expressed in Thousands)**

	School Building Authority	West Virginia Infrastructure and Jobs Development Council	Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Economic Development Project Fund	Total
Assets:						
Cash and Cash Equivalents	\$30,021	\$248	\$25,323	\$14,280	\$36,637	\$ 106,509
Investments	23,021	2	—	—	—	23,023
Receivables, Net	597	—	77	30	529	1,233
Due from Other Funds	—	—	1,000	—	—	1,000
Total Assets	<u>\$53,639</u>	<u>\$250</u>	<u>\$26,400</u>	<u>\$14,310</u>	<u>\$37,166</u>	<u>\$131,765</u>
Fund Balances:						
Reserved for Debt Service	<u>\$53,639</u>	<u>\$250</u>	<u>\$26,400</u>	<u>\$14,310</u>	<u>\$37,166</u>	<u>\$131,765</u>
Total Liabilities and Fund Balances	<u>\$53,639</u>	<u>\$250</u>	<u>\$26,400</u>	<u>\$14,310</u>	<u>\$37,166</u>	<u>\$131,765</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	<u>School Building Authority</u>	<u>West Virginia Infrastructure and Jobs Development Council</u>	<u>Education, Arts, Sciences, and Tourism Fund</u>	<u>Lease Purchase Account</u>	<u>Economic Development Project Fund</u>	<u>Total</u>
Revenues:						
Investment Earnings	\$ <u>1,411</u>	\$ <u>328</u>	\$ <u>777</u>	\$ <u>553</u>	\$ <u>1,376</u>	\$ <u>4,445</u>
Expenditures:						
Debt Service:						
Principal	20,030	9,755	7,375	10,182	7,165	54,507
Interest	<u>19,349</u>	<u>16,334</u>	<u>2,421</u>	<u>16,819</u>	<u>11,767</u>	<u>66,690</u>
Total Expenditures	<u>39,379</u>	<u>26,089</u>	<u>9,796</u>	<u>27,001</u>	<u>18,932</u>	<u>121,197</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(37,968)</u>	<u>(25,761)</u>	<u>(9,019)</u>	<u>(26,448)</u>	<u>(17,556)</u>	<u>(116,752)</u>
Other Financing Sources (Uses):						
Face Value of Long-Term Debt Issued	—	54,800	—	—	—	54,800
Premiums (Discounts) on Bonds Issued	—	697	—	—	—	697
Payments to Refunded Bond Escrow Agent	—	(56,062)	—	—	—	(56,062)
Transfers In	41,343	26,479	10,083	26,486	21,251	125,642
Transfers Out	<u>(1,252)</u>	<u>—</u>	<u>—</u>	<u>(118)</u>	<u>(100)</u>	<u>(1,470)</u>
Total Other Financing Sources	<u>40,091</u>	<u>25,914</u>	<u>10,083</u>	<u>26,368</u>	<u>21,151</u>	<u>123,607</u>
Net Change in Fund Balances	2,123	153	1,064	(80)	3,595	6,855
Fund Balances, Beginning of Year	<u>51,516</u>	<u>97</u>	<u>25,336</u>	<u>14,390</u>	<u>33,571</u>	<u>124,910</u>
Fund Balances, End of Year	<u>\$ 53,639</u>	<u>\$ 250</u>	<u>\$26,400</u>	<u>\$ 14,310</u>	<u>\$ 37,166</u>	<u>\$ 131,765</u>

INTERNAL SERVICE FUNDS FINANCIAL STATEMENTS

Internal Service Funds account for the operations of those State agencies that provide goods and services to other State agencies and governmental units on a cost-reimbursement basis. The Internal Service Funds consist of the following:

State Building Fund The Fund operates and maintains the primary State government office building complex and related facilities. These facilities are leased to the State agencies that occupy the facilities.

Information Services and Communications The Fund is responsible for establishing, developing, and improving data-processing functions, for promulgating standards for the utilization of data-processing equipment, and for promoting the effective and efficient operation of the legislative, executive, and judicial branches of State Government. Costs are recovered through service charges to user agencies.

Travel Management The Fund, a central motor pool responsible for the storage, maintenance, and repairs of State-owned vehicles and aircraft, is maintained by the Purchasing Division of the Department of Administration. User agencies are billed for leasing such vehicles and for use of aircraft.

Investment Management Board The Board serves as the Trustee to provide prudent fiscal administration, investment, and management of the State's pension funds, workers' compensation, pneumoconiosis, and other long-term funds.

Board of Treasury Investments The BTI serves as investment vehicle for the operating cash of State agencies and authorities, local governments, and other political subdivisions.

**Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2006
(Expressed in Thousands)**

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Board of Treasury Investments	Total
Assets:						
Current Assets:						
Cash and Cash Equivalents	\$ 977	\$ 5,476	\$ 1,263	\$4,042	\$606	\$ 12,364
Receivables, Net	53	626	2	3,607	211	4,499
Due from Other Funds	151	4,707	511	—	—	5,369
Due from Component Units	1	494	8	—	—	503
Inventories	159	189	—	—	—	348
Other Assets	33	—	—	116	—	149
Restricted Assets:						
Cash and Cash Equivalents	—	—	235	—	—	235
Total Current Assets	<u>1,374</u>	<u>11,492</u>	<u>2,019</u>	<u>7,765</u>	<u>817</u>	<u>23,467</u>
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	37,350	—	—	—	—	37,350
Capital Assets, Net	<u>56,807</u>	<u>2,259</u>	<u>11,477</u>	<u>20</u>	<u>13</u>	<u>70,576</u>
Total Noncurrent Assets	<u>94,157</u>	<u>2,259</u>	<u>11,477</u>	<u>20</u>	<u>13</u>	<u>107,926</u>
Total Assets	<u>95,531</u>	<u>13,751</u>	<u>13,496</u>	<u>7,785</u>	<u>830</u>	<u>131,393</u>
Liabilities:						
Current Liabilities:						
Accounts Payable	1,412	3,778	47	3,968	384	9,589
Accrued and Other Liabilities	62	125	15	—	—	202
Due to Other Governments	17	47	5	—	—	69
Due to Other Funds	111	36	12	—	—	159
Due to Component Units	—	201	—	—	—	201
Capital Leases	<u>678</u>	<u>508</u>	<u>2,170</u>	<u>—</u>	<u>—</u>	<u>3,356</u>
Total Current Liabilities	<u>2,280</u>	<u>4,695</u>	<u>2,249</u>	<u>3,968</u>	<u>384</u>	<u>13,576</u>
Noncurrent Liabilities:						
Capital Leases	2,027	478	2,753	—	—	5,258
Compensated Absences	<u>855</u>	<u>2,529</u>	<u>352</u>	<u>—</u>	<u>68</u>	<u>3,804</u>
Total Noncurrent Liabilities	<u>2,882</u>	<u>3,007</u>	<u>3,105</u>	<u>—</u>	<u>68</u>	<u>9,062</u>
Total Liabilities	<u>5,162</u>	<u>7,702</u>	<u>5,354</u>	<u>3,968</u>	<u>452</u>	<u>22,638</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	54,102	1,273	6,554	20	13	61,962
Restricted for Capital Projects	37,350	—	—	—	—	37,350
Unrestricted (Deficit)	<u>(1,083)</u>	<u>4,776</u>	<u>1,588</u>	<u>3,797</u>	<u>365</u>	<u>9,443</u>
Total Net Assets	<u>\$90,369</u>	<u>\$ 6,049</u>	<u>\$ 8,142</u>	<u>\$3,817</u>	<u>\$378</u>	<u>\$108,755</u>

**Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	<u>State Building Fund</u>	<u>Information Services and Communications</u>	<u>Travel Management</u>	<u>Investment Management Board</u>	<u>Board of Treasury Investments</u>	<u>Total</u>
Operating Revenues:						
Charges for Services	\$11,944	\$28,791	\$6,046	\$23,441	\$2,444	\$ 72,666
Operating Expenses:						
Cost of Sales and Services	12,079	24,696	2,408	21,131	1,337	61,651
General and Administration	970	2,064	427	2,318	726	6,505
Depreciation and Amortization	<u>643</u>	<u>654</u>	<u>3,350</u>	<u>17</u>	<u>3</u>	<u>4,667</u>
Total Operating Expenses	<u>13,692</u>	<u>27,414</u>	<u>6,185</u>	<u>23,466</u>	<u>2,066</u>	<u>72,823</u>
Operating Income (Loss)	<u>(1,748)</u>	<u>1,377</u>	<u>(139)</u>	<u>(25)</u>	<u>378</u>	<u>(157)</u>
Nonoperating Revenues (Expenses):						
Entitlements and Grants	—	229	—	—	—	229
Gain (Loss) on Sale of Equipment	(2)	—	97	—	—	95
Investment Income	509	—	19	173	—	701
Interest Expense	(182)	(40)	(169)	—	—	(391)
Other Nonoperating Revenues	<u>4,593</u>	<u>—</u>	<u>109</u>	<u>—</u>	<u>—</u>	<u>4,702</u>
Total Nonoperating Revenues	<u>4,918</u>	<u>189</u>	<u>56</u>	<u>173</u>	<u>—</u>	<u>5,336</u>
Income (Loss) Before Transfers	3,170	1,566	(83)	148	378	5,179
Transfers In	15,114	—	—	—	—	15,114
Transfers Out	<u>(1,430)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,430)</u>
Total Transfers	<u>13,684</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,684</u>
Change in Net Assets	16,854	1,566	(83)	148	378	18,863
Net Assets, Beginning of Year	<u>73,515</u>	<u>4,483</u>	<u>8,225</u>	<u>3,669</u>	<u>—</u>	<u>89,892</u>
Net Assets, End of Year	<u>\$90,369</u>	<u>\$ 6,049</u>	<u>\$8,142</u>	<u>\$ 3,817</u>	<u>\$ 378</u>	<u>\$108,755</u>

**Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Board of Treasury Investments	Total
Cash Flows from Operating Activities:						
Receipts from Customers	\$ 11,829	\$ 31,338	\$ 6,605	\$ 23,449	\$ 2,233	\$ 75,454
Payments to Suppliers	(9,191)	(19,402)	(2,051)	(22,055)	(1,228)	(53,927)
Payments to Employees	<u>(3,799)</u>	<u>(12,841)</u>	<u>(1,219)</u>	<u>(1,635)</u>	<u>(383)</u>	<u>(19,877)</u>
Net Cash Provided by (Used for) Operating Activities	<u>(1,161)</u>	<u>(905)</u>	<u>3,335</u>	<u>(241)</u>	<u>622</u>	<u>1,650</u>
Cash Flows from Noncapital Financing Activities:						
Transfers In	15,114	—	—	—	—	15,114
Transfers Out	(1,430)	—	—	—	—	(1,430)
Other Nonoperating Revenue	4,593	—	—	—	—	4,593
Entitlements and Grants	<u>—</u>	<u>229</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>229</u>
Net Cash Provided by Noncapital Financing Activities	<u>18,277</u>	<u>229</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,506</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Sale of Capital Bonds and Other Debts	—	—	2,533	—	—	2,533
Repayment of Capital Debt	(681)	(491)	(3,303)	—	—	(4,475)
Interest Paid on Capital Debt	(187)	(40)	(169)	—	—	(396)
Acquisition and Construction of Capital Assets	<u>(11,695)</u>	<u>(654)</u>	<u>(5,814)</u>	<u>—</u>	<u>(16)</u>	<u>(18,179)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(12,563)</u>	<u>(1,185)</u>	<u>(6,753)</u>	<u>—</u>	<u>(16)</u>	<u>(20,517)</u>
Cash Flows from Investing Activities:						
Purchase of Investments	(400)	—	—	—	—	(400)
Proceeds from Sale of Investments	400	—	—	—	—	400
Investment Earnings	<u>509</u>	<u>—</u>	<u>19</u>	<u>167</u>	<u>—</u>	<u>695</u>
Net Cash Provided by Investing Activities	<u>509</u>	<u>—</u>	<u>19</u>	<u>167</u>	<u>—</u>	<u>695</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,062	(1,861)	(3,399)	(74)	606	334
Cash and Cash Equivalents, Beginning of Year	<u>33,265</u>	<u>7,337</u>	<u>4,897</u>	<u>4,116</u>	<u>—</u>	<u>49,615</u>
Cash and Cash Equivalents, End of Year	<u>\$ 38,327</u>	<u>\$ 5,476</u>	<u>\$ 1,498</u>	<u>\$ 4,042</u>	<u>\$ 606</u>	<u>\$ 49,949</u>

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Board of Treasury Investments	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)						
Operating Activities:						
Operating Income (Loss)	\$(1,748)	\$ 1,377	\$ (139)	\$ (25)	\$ 378	\$ (157)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:						
Depreciation and Amortization	643	654	3,350	17	3	4,667
Changes in Assets and Liabilities:						
Receivables	(115)	2,547	558	9	(211)	2,788
Inventories	(29)	165	—	—	—	136
Other Assets	26	—	3	(83)	—	(54)
Accounts Payable and Accrued Liabilities	56	(5,524)	(424)	(159)	384	(5,667)
Other Liabilities	<u>6</u>	<u>(124)</u>	<u>(13)</u>	<u>—</u>	<u>68</u>	<u>(63)</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (1,161)</u></u>	<u><u>\$ (905)</u></u>	<u><u>\$ 3,335</u></u>	<u><u>\$ (241)</u></u>	<u><u>\$ 622</u></u>	<u><u>\$ 1,650</u></u>

PROPRIETARY FUNDS - NONMAJOR

Drinking Water Treatment Revolving Fund Low interest loans are made to communities to assist in financing drinking water infrastructure projects including, but not limited to, treatment, distribution, transmission, and storage. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

Alcohol Beverage Control Administration The Administration is responsible for the regulation and control of the manufacture, sale, distribution, transportation, storage, and consumption of alcoholic liquors. The Administration shall establish stores and agencies and shall fix uniform prices for the sale of alcoholic liquors.

West Virginia Prepaid College Plan The Plan is responsible for providing individuals and organizations the opportunity to prepay future college tuition and mandatory fees at West Virginia public and private colleges and universities. Prices for contracts are based on weighted-average tuition and mandatory fees as determined annually by the Plan's consulting actuaries and its Board. In March 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the Plan to reopen. The Prepaid Tuition Plan will continue in existence and no contracts in effect will be affected by the closure. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due.

AccessWV (previously West Virginia Health Insurance Plan) The Plan is responsible for providing health care coverage consistent with comprehensive coverage to every eligible person who is not eligible for medicare. The Plan shall be operated so as to qualify as an acceptable alternative mechanism under the federal Health Insurance Portability and Accountability Act and as an option to provide health insurance coverage for individuals eligible for the federal health care tax credit established by the federal Trade Adjustment Assistance Reform Act of 2002 (Section 35 of the Internal Revenue Code of 1986). The coverage to be issued by the Plan, its schedule of benefits, exclusions and other limitations shall be established by the board and subject to the approval of the insurance commissioner. The Plan will establish and modify, from time to time, as appropriate, rates, rate schedules, rate adjustments, expense allowances, agents' referral fees, claim reserve formulas and any other actuarial function appropriate to the operation of the Plan.

Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2006
(Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	AccessWV	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$13,504	\$ 8,195	\$ 2,893	\$3,876	\$ 28,468
Receivables, Net	1,564	—	1,752	157	3,473
Due from Other Funds	—	—	23	—	23
Inventories	—	37	—	—	37
Total Current Assets	15,068	8,232	4,668	4,033	32,001
Noncurrent Assets:					
Investments	—	—	93,627	—	93,627
Receivables, Net	35,668	—	4,897	—	40,565
Capital Assets, Net	—	1,893	—	—	1,893
Total Noncurrent Assets	35,668	1,893	98,524	—	136,085
Total Assets	50,736	10,125	103,192	4,033	168,086
Liabilities:					
Current Liabilities:					
Accounts Payable	—	2,356	53	—	2,409
Accrued Tuition Contract Benefits	—	—	7,829	—	7,829
Accrued and Other Liabilities	—	39	—	22	61
Due to Other Funds	—	32	—	—	32
Insurance Claims Obligations	—	—	—	420	420
Compensated Absences	—	—	29	3	32
Total Current Liabilities	—	2,427	7,911	445	10,783
Noncurrent Liabilities:					
Accrued Tuition Contract Benefits	—	—	100,492	—	100,492
Compensated Absences	—	1,173	49	4	1,226
Total Noncurrent Liabilities	—	1,173	100,541	4	101,718
Total Liabilities	—	3,600	108,452	449	112,501
Net Assets:					
Invested in Capital Assets	—	1,893	—	—	1,893
Restricted for:					
Program Administration	—	—	465	3,584	4,049
Lending Activities	50,736	—	—	—	50,736
Unrestricted (Deficit)	—	4,632	(5,725)	—	(1,093)
Total Net Assets (Deficit)	\$50,736	\$ 6,525	\$ (5,260)	\$3,584	\$ 55,585

West Virginia

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets Nonmajor Proprietary Funds For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	AccessWV	Total
Operating Revenues:					
Charges for Services and Sales	\$ 459	\$66,036	\$ —	\$3,063	\$ 69,558
Tuition Contracts	—	—	397	—	397
Licenses, Permits, and Fees	—	3,200	—	—	3,200
Other	—	220	659	—	879
Total Operating Revenues	<u>459</u>	<u>69,456</u>	<u>1,056</u>	<u>3,063</u>	<u>74,034</u>
Operating Expenses:					
Cost of Sales and Services	—	52,519	—	—	52,519
Insurance Claims	—	—	—	734	734
Tuition Contract Benefits and Expenses	—	—	7,342	—	7,342
General and Administration	—	5,397	494	422	6,313
Depreciation and Amortization	—	125	—	—	125
Total Operating Expenses	<u>—</u>	<u>58,041</u>	<u>7,836</u>	<u>1,156</u>	<u>67,033</u>
Operating Income (Loss)	459	11,415	(6,780)	1,907	7,001
Nonoperating Revenues:					
Interest and Other Investment Income	<u>458</u>	—	<u>8,018</u>	<u>136</u>	<u>8,612</u>
Income Before Transfers	917	11,415	1,238	2,043	15,613
Transfers:					
Transfers In	9,826	200	150	27	10,203
Transfers Out	—	(11,509)	—	—	(11,509)
Total Transfers	<u>9,826</u>	<u>(11,309)</u>	<u>150</u>	<u>27</u>	<u>(1,306)</u>
Change in Net Assets	10,743	106	1,388	2,070	14,307
Net Assets (Deficit), Beginning of Year	<u>39,993</u>	<u>6,419</u>	<u>(6,648)</u>	<u>1,514</u>	<u>41,278</u>
Net Assets (Deficit), End of Year	<u>\$50,736</u>	<u>\$ 6,525</u>	<u>\$(5,260)</u>	<u>\$3,584</u>	<u>\$ 55,585</u>

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	AccessWV	Total
Cash Flows From Operating Activities:					
Receipts from Customers	\$ 1,753	\$ 69,376	\$ 2,353	\$2,910	\$ 76,392
Payments to Suppliers	—	(52,896)	(354)	(602)	(53,852)
Payments to Employees	—	(4,644)	(254)	(125)	(5,023)
Payments to Beneficiaries	—	—	(5,010)	—	(5,010)
Payments for Loans Originated	(8,818)	—	—	—	(8,818)
Other Operating Cash Receipts	—	85	605	20	710
Net Cash Provided by (Used for) Operating Activities	<u>(7,065)</u>	<u>11,921</u>	<u>(2,660)</u>	<u>2,203</u>	<u>4,399</u>
Cash Flows from Noncapital Financing Activities:					
Transfers In	9,826	200	152	27	10,205
Transfers Out	—	(11,509)	—	—	(11,509)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>9,826</u>	<u>(11,309)</u>	<u>152</u>	<u>27</u>	<u>(1,304)</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition and Construction of Capital Assets	—	(70)	—	—	(70)
Net Cash Used for Capital and Related Financing Activities	<u>—</u>	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>(70)</u>
Cash Flows from Investing Activities:					
Purchase of Investments	—	—	(791)	—	(791)
Proceeds from Sale of Investments	—	—	3,600	—	3,600
Investment Earnings	458	—	889	136	1,483
Net Cash Provided by Investing Activities	<u>458</u>	<u>—</u>	<u>3,698</u>	<u>136</u>	<u>4,292</u>
Net Increase in Cash and Cash Equivalents	3,219	542	1,190	2,366	7,317
Cash and Cash Equivalents, Beginning of Year	<u>10,285</u>	<u>7,653</u>	<u>1,703</u>	<u>1,510</u>	<u>21,151</u>
Cash and Cash Equivalents, End of Year	<u>\$13,504</u>	<u>\$ 8,195</u>	<u>\$ 2,893</u>	<u>\$3,876</u>	<u>\$ 28,468</u>

(Continued)

**Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)
(Continued)**

	Business-type Activities Enterprise Funds				Total
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	AccessWV	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)					
Operating Activities:					
Operating Income (Loss)	\$ 459	\$11,415	\$(6,780)	\$1,907	\$ 7,001
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	—	125	—	—	125
Changes in Assets and Liabilities:					
Receivables	(7,524)	5	1,901	(153)	(5,771)
Inventories	—	(15)	—	—	(15)
Other Assets	—	26	—	—	26
Accounts Payable and Accrued Liabilities	—	365	(126)	29	268
Tuition Contracts Benefits and Expenses	—	—	2,333	—	2,333
Other Liabilities	—	—	—	420	420
Compensated Absences	—	—	12	—	12
Net Cash Provided by (Used for) Operating Activities	<u>\$(7,065)</u>	<u>\$11,921</u>	<u>\$(2,660)</u>	<u>\$2,203</u>	<u>\$ 4,399</u>
Schedule of Noncash Capital and Financing Activities:					
Unrealized Gain on Investments	\$ —	\$ —	\$ 7,130	\$ —	\$ 7,130

PENSION TRUST FUNDS

Pension Trust and Investment Trust Funds These Funds are accounted for in essentially the same manner as proprietary funds and are described below:

Consolidated Public Retirement Board The Consolidated Public Retirement Board consists of seven plans. There are six defined benefit plans as follows: The Public Employees' Retirement System (PERS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers substantially all employees of the State and its component units, as well as employees of participating non-State governmental entities who are not participants of another State or municipal retirement system. The Deputy Sheriff Retirement System (DSRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all deputy sheriffs hired on or after July 1, 1998, as well as eligible transferees from PERS. The Teachers' Retirement System (TRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all full-time employees of the public school systems in the State, as well as certain personnel of the State-supported institutions of higher education, State Department of Education, and Boards of higher education. The Public Safety Death, Disability and Retirement Fund (PSDDRF) plan is a single-employer defined benefit public employee retirement system. This plan covers all West Virginia State Police hired before July 1, 1994. The State Police Retirement System (SPRS) was implemented to cover all State Police employees hired on or after July 1, 1994. The Judges Retirement System (JRS) plan is a single-employer defined benefit public employee retirement system. This plan covers State judges who elect to participate. The Teachers' Defined Contribution Retirement System (TDCRS) plan is a multiple-employer defined contribution retirement system. This plan primarily covers full-time employees of the State's county public school systems.

**Combining Statement of Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Assets:			
Cash and Cash Equivalents	\$ 16	\$ —	\$ 2
Investments:			
Equity in Pooled Investments	3,696,027	2,079,390	452,366
Mutual Funds	—	—	—
Receivables, Net:			
Participant Loans Receivable	—	9,691	—
Contributions Receivable	3,922	16,418	438
Due from Other Funds	7	69,042	—
Due from Component Units	<u>364</u>	<u>—</u>	<u>—</u>
Total Assets	<u>3,700,336</u>	<u>2,174,541</u>	<u>452,806</u>
Liabilities:			
Accrued and Other Liabilities	54	77	12
Due to Other Funds	<u>96</u>	<u>—</u>	<u>—</u>
Total Liabilities	<u>150</u>	<u>77</u>	<u>12</u>
Net Assets Held in Trust for Pension Benefits	<u>\$3,700,186</u>	<u>\$2,174,464</u>	<u>\$452,794</u>

<u>State Police Retirement System</u>	<u>Judges' Retirement System</u>	<u>Teachers' Defined Contribution Retirement System</u>	<u>Deputy Sheriff Retirement System</u>	<u>Total Pension Trust Funds</u>
\$ —	\$ —	\$ 4,431	\$ —	\$ 4,449
30,744	85,932	—	77,075	6,421,534
—	—	736,012	—	736,012
3	—	—	319	10,013
—	—	8,238	510	29,526
—	—	—	—	69,049
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>364</u>
30,747	85,932	748,681	77,904	7,270,947
—	—	385	5	533
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>96</u>
<u>—</u>	<u>—</u>	<u>385</u>	<u>5</u>	<u>629</u>
<u>\$30,747</u>	<u>\$85,932</u>	<u>\$748,296</u>	<u>\$77,899</u>	<u>\$7,270,318</u>

**Combining Statement of Changes in Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Additions:			
Contributions:			
Members	\$ 52,248	\$ 48,201	\$ 989
Employers	131,581	360,543	8,630
Other	<u>2,013</u>	<u>367,143</u>	<u>69,000</u>
Total Contributions	<u>185,842</u>	<u>775,887</u>	<u>78,619</u>
Investment Income (Loss):			
Net Appreciation (Depreciation) in Fair Value of Investments	316,715	145,421	35,572
Interest	29,661	16,524	3,479
Investment Expense	<u>(25,685)</u>	<u>(14,772)</u>	<u>(3,152)</u>
Net Investment Income (Loss)	<u>320,691</u>	<u>147,173</u>	<u>35,899</u>
Transfers to (from) Plans	578	(790)	(3)
Other	<u>—</u>	<u>3,802</u>	<u>616</u>
Total Additions	<u>507,111</u>	<u>926,072</u>	<u>115,131</u>
Deductions:			
Benefit Expense	199,255	372,687	23,696
Refunds of Contributions	9,142	3,994	(10)
Administrative Expenses	<u>3,179</u>	<u>2,282</u>	<u>41</u>
Total Deductions	<u>211,576</u>	<u>378,963</u>	<u>23,727</u>
Change in Net Assets Held in Trust for Pension Benefits	295,535	547,109	91,404
Net Assets, Beginning of Year	3,404,651	1,627,355	361,390
Net Assets, End of Year	<u>\$3,700,186</u>	<u>\$2,174,464</u>	<u>\$452,794</u>

<u>State Police Retirement System</u>	<u>Judges' Retirement System</u>	<u>Teachers' Defined Contribution Retirement System</u>	<u>Deputy Sheriff Retirement System</u>	<u>Total Pension Trust Funds</u>
\$ 1,874	\$ 865	\$ 28,459	\$ 2,674	\$ 135,310
1,821	6,758	46,331	3,212	558,876
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>438,156</u>
<u>3,695</u>	<u>7,623</u>	<u>74,790</u>	<u>5,886</u>	<u>1,132,342</u>
2,375	6,989	46,288	6,353	559,713
249	704	—	652	51,269
<u>(216)</u>	<u>(605)</u>	<u>—</u>	<u>(539)</u>	<u>(44,969)</u>
<u>2,408</u>	<u>7,088</u>	<u>46,288</u>	<u>6,466</u>	<u>566,013</u>
—	207	8	—	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>550</u>	<u>4,968</u>
<u>6,103</u>	<u>14,918</u>	<u>121,086</u>	<u>12,902</u>	<u>1,703,323</u>
118	3,737	—	3,449	602,942
514	—	17,002	415	31,057
<u>21</u>	<u>6</u>	<u>1,515</u>	<u>53</u>	<u>7,097</u>
<u>653</u>	<u>3,743</u>	<u>18,517</u>	<u>3,917</u>	<u>641,096</u>
5,450	11,175	102,569	8,985	1,062,227
<u>25,297</u>	<u>74,757</u>	<u>645,727</u>	<u>68,914</u>	<u>6,208,091</u>
<u>\$30,747</u>	<u>\$85,932</u>	<u>\$748,296</u>	<u>\$77,899</u>	<u>\$7,270,318</u>

INVESTMENT TRUST FUNDS

Investment Trust Funds The investment trust funds account for the external portion of the State's external investment pools. The State maintains two external investment pools, the Cash Liquidity and Money Market pools. The external portion belongs to local governments and municipalities.

**Combining Statement of Fiduciary Net Assets
Investment Trust Funds
June 30, 2006
(Expressed in Thousands)**

	Cash Liquidity	Money Market	Total
Assets:			
Equity in Pooled Cash Equivalents	\$61,826	\$152,710	\$214,536
Total Assets	<u>\$61,826</u>	<u>\$152,710</u>	<u>\$214,536</u>
Net Assets:			
Held in Trust for External Investment Pool Participants	\$61,826	\$152,710	\$214,536
Total Net Assets	<u>\$61,826</u>	<u>\$152,710</u>	<u>\$214,536</u>

**Combining Statement of Changes in Fiduciary Net Assets
Investment Trust Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Cash Liquidity	Money Market	Total
Additions:			
Deposits, Pool Participants	\$184,544	\$381,164	\$565,708
Investment Income:			
Net Appreciation in Fair Value of Investments	<u>2,128</u>	<u>6,435</u>	<u>8,563</u>
Total Additions	<u>186,672</u>	<u>387,599</u>	<u>574,271</u>
Deductions:			
Withdrawals	<u>177,333</u>	<u>371,738</u>	<u>549,071</u>
Change in Net Assets Held in Trust for External Investment Pool Participants	9,339	15,861	25,200
Net Assets, Beginning of Year	<u>52,487</u>	<u>136,849</u>	<u>189,336</u>
Net Assets, End of Year	<u>\$ 61,826</u>	<u>\$152,710</u>	<u>\$214,536</u>

AGENCY FUNDS

Agency Funds These Funds are custodial in nature and do not involve measurement of operations. They include the following:

Local Government This includes two funds, the Local Government Fund and the Municipal Bond Commission, which account for taxes collected by the State that are to be remitted to respective local governments.

Other Agency Funds These funds are the Consolidated Investment Pool, the Patient Injury Compensation Fund, and other small agency funds which account for various assets and liabilities generated through agency relationships. These include patient and inmate funds and other amounts collected on behalf of third parties, performance bonds required by the Department of Energy and Labor, and other restricted assets held by the Governor's Office of Community and Industrial Development and the Department of Natural Resources. The Patient Injury Compensation Fund was created for the purpose of providing fair and reasonable compensation in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of limitations on economic damage awards for trauma care, or as a result of the operation of the joint and several liability principles and standards set forth in the West Virginia State Code.

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006
(Expressed in Thousands)

	Local Government		Other Agency			Total
	Local Government	Municipal Bond Commission	Consolidated Investment Pool	Patient Injury Compensation Fund	Other Agency Funds	
Assets:						
Current Assets:						
Cash and						
Cash Equivalents	\$158	\$6,521	\$ 20,692	\$3,376	\$24,912	\$55,659
Receivables, Net	—	—	62	13	5,017	5,092
Total Assets	<u>\$158</u>	<u>\$6,521</u>	<u>\$20,754</u>	<u>\$3,389</u>	<u>\$29,929</u>	<u>\$60,751</u>
Liabilities:						
Current Liabilities:						
Accounts Payable	\$ —	\$ —	\$ —	\$ —	\$ 1,124	\$ 1,124
Due to Other Governments	158	6,521	—	—	—	6,679
Agency Liabilities	—	—	20,754	3,389	28,805	52,948
Total Liabilities	<u>\$158</u>	<u>\$6,521</u>	<u>\$20,754</u>	<u>\$3,389</u>	<u>\$29,929</u>	<u>\$60,751</u>

**Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

	Balance July 1, 2005, as Adjusted	Additions	Deductions	Balance June 30, 2006
Local Government				
Assets:				
Cash	\$ 476	\$1,183,364	\$1,183,682	\$ 158
Total Assets	<u>\$ 476</u>	<u>\$1,183,364</u>	<u>\$1,183,682</u>	<u>\$ 158</u>
Liabilities:				
Accounts Payable	\$ —	\$ 9,367	\$ 9,367	\$ —
Due to Other Governments	476	1,192,731	1,193,049	158
Total Liabilities	<u>\$ 476</u>	<u>\$1,202,098</u>	<u>\$1,202,416</u>	<u>\$ 158</u>
Municipal Bond Commission				
Assets:				
Cash	\$ 7,986	\$ 409,065	\$ 410,530	\$ 6,521
Total Assets	<u>\$ 7,986</u>	<u>\$ 409,065</u>	<u>\$ 410,530</u>	<u>\$ 6,521</u>
Liabilities:				
Accounts Payable	\$ 1	\$ 154,713	\$ 154,714	\$ —
Due to Other Governments	7,985	563,779	565,243	6,521
Total Liabilities	<u>\$ 7,986</u>	<u>\$ 718,492</u>	<u>\$ 719,957</u>	<u>\$ 6,521</u>
Consolidated Investment Pool				
Assets:				
Cash	\$ 4,445	\$ 9,911	\$ 9,428	\$ 4,928
Equity in Pooled Cash Equivalents	15,006	19,686	18,928	15,764
Accrued Interest Receivable	36	62	36	62
Total Assets	<u>\$19,487</u>	<u>\$ 29,659</u>	<u>\$ 28,392</u>	<u>\$20,754</u>
Liabilities:				
Accounts Payable	\$ —	\$ 55	\$ 55	\$ —
Agency Liabilities	19,487	29,714	28,447	20,754
Total Liabilities	<u>\$19,487</u>	<u>\$ 29,769</u>	<u>\$ 28,502</u>	<u>\$20,754</u>
Patient Injury Compensation Fund				
Assets:				
Cash and Cash Equivalents	\$ —	\$ 3,433	\$ 3,390	\$ 43
Equity in Pooled Cash Equivalents	—	3,383	50	3,333
Other Receivables	—	834	834	—
Accrued Interest Receivable	—	13	—	13
Total Assets	<u>\$ —</u>	<u>\$ 7,663</u>	<u>\$ 4,274</u>	<u>\$ 3,389</u>
Liabilities:				
Account Payable	\$ —	\$ 7	\$ 7	\$ —
Agency Liabilities	—	7,670	4,281	3,389
Accrued and Other Liabilities	—	834	834	—
Total Liabilities	<u>\$ —</u>	<u>\$ 8,511</u>	<u>\$ 5,122</u>	<u>\$ 3,389</u>

	Balance July 1, 2005, as Adjusted	Additions	Deductions	Balance June 30, 2006
Other Agency Funds				
Assets:				
Cash and Cash Equivalents	\$20,577	\$2,484,580	\$2,484,423	\$20,734
Equity in Pooled Cash Equivalents	4,131	3,427	3,380	4,178
Other Receivables	8,334	—	3,334	5,000
Accrued Interest Receivable	<u>11</u>	<u>17</u>	<u>11</u>	<u>17</u>
Total Assets	<u>\$33,053</u>	<u>\$2,488,024</u>	<u>\$2,491,148</u>	<u>\$29,929</u>
Liabilities:				
Accounts Payable	\$ 59	\$ 7,432	\$ 6,367	\$ 1,124
Accrued and Other Liabilities	834	—	834	—
Agency Liabilities	<u>32,160</u>	<u>2,495,225</u>	<u>2,498,580</u>	<u>28,805</u>
Total Liabilities	<u>\$33,053</u>	<u>\$2,502,657</u>	<u>\$2,505,781</u>	<u>\$29,929</u>
Total - All Agency Funds				
Assets:				
Cash and Cash Equivalents	\$33,484	\$4,090,353	\$4,091,453	\$32,384
Equity in Pooled Cash Equivalents	19,137	26,496	22,358	23,275
Other Receivables	8,334	834	4,168	5,000
Accrued Interest Receivable	<u>47</u>	<u>92</u>	<u>47</u>	<u>92</u>
Total Assets	<u>\$61,002</u>	<u>\$4,117,775</u>	<u>\$4,118,026</u>	<u>\$60,751</u>
Liabilities:				
Accounts Payable	\$ 60	\$ 171,574	\$ 170,510	\$ 1,124
Accrued and Other Liabilities	834	834	1,668	—
Due to Other Governments	8,461	1,756,510	1,758,292	6,679
Agency Liabilities	<u>51,647</u>	<u>2,532,609</u>	<u>2,531,308</u>	<u>52,948</u>
Total Liabilities	<u>\$61,002</u>	<u>\$4,461,527</u>	<u>\$4,461,778</u>	<u>\$60,751</u>



DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

Nonmajor Component Units

Educational Broadcasting Authority The Authority is responsible for extending educational, cultural, and informational experiences to all citizens of the State through the construction and operation of noncommercial, educational television and radio stations, and related facilities. Revenues for operations are derived primarily through private donations, with additional supplements from Federal and State grants.

Jobs Investment Trust The Board is responsible for improving and promoting economic development in the State. It can issue loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

West Virginia State Rail Authority The Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State, enabling it to remain a viable mode of transportation for the public sector. The Authority, empowered to issue bonds and set rates for the rail system, additionally receives Federal and State grants to supplement the cost of operations.

Solid Waste Management Board The Board is responsible for the improved collection and disposal of solid wastes, and for encouraging recycling, reuse, or recovery of resources from wastes. The intent of the Board is to become a viable financing mechanism for solid waste projects in West Virginia, and it is empowered to issue bonds and set rate structures at its discretion.

Racing Commission The Commission has full jurisdiction and supervision over all horse and dog race meetings, and all persons involved in the holding or conducting of horse or dog race meetings. It can fix the annual fee for permits and registrations. Other racing taxes and fees are set by West Virginia State Code, Chapter 19, Article 23.

Public Defenders Corporation The Corporation is responsible for fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation determined by the executive director of the Public Defender Services.

**Combining Statement of Net Assets
Nonmajor Discretely Presented Component Units
June 30, 2006
(Expressed in Thousands)**

	Educational Broadcasting Authority	Jobs Investment Trust	WV State Rail Authority
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$1,099	\$11,070	\$ 1,457
Investments	123	8,482	—
Receivables, Net	286	2,184	51
Due from Primary Government	145	—	845
Inventories	—	—	77
Other Assets	220	649	6
Restricted Assets:			
Cash and Cash Equivalents	—	—	572
Other Restricted Assets	—	—	—
Total Current Assets	<u>1,873</u>	<u>22,385</u>	<u>3,008</u>
Noncurrent Assets:			
Restricted Assets:			
Other Restricted Assets	351	—	—
Capital Assets, Net	<u>7,452</u>	<u>1,071</u>	<u>34,908</u>
Total Noncurrent Assets	<u>7,803</u>	<u>1,071</u>	<u>34,908</u>
Total Assets	<u>9,676</u>	<u>23,456</u>	<u>37,916</u>
Liabilities:			
Current Liabilities:			
Accounts Payable	627	2	858
Accrued and Other Liabilities	—	211	70
Due to Primary Government	26	7	12
Deferred Revenue	170	—	—
Capital Leases	—	—	412
Compensated Absences	<u>313</u>	<u>—</u>	<u>61</u>
Total Current Liabilities	<u>1,136</u>	<u>220</u>	<u>1,413</u>
Noncurrent Liabilities:			
Liabilities Payable from Restricted Assets	—	—	—
Accrued and Other Liabilities	—	—	—
Capital Leases	—	19,878	425
Compensated Absences	<u>937</u>	<u>—</u>	<u>124</u>
Total Noncurrent Liabilities	<u>937</u>	<u>19,878</u>	<u>549</u>
Total Liabilities	<u>2,073</u>	<u>20,098</u>	<u>1,962</u>
Net Assets:			
Investment in Capital Assets, Net of Related Debt	7,452	1,071	34,071
Restricted for Specific Component Unit Purposes	351	—	—
Unrestricted	<u>(200)</u>	<u>2,287</u>	<u>1,883</u>
Total Net Assets	<u>\$7,603</u>	<u>\$ 3,358</u>	<u>\$35,954</u>

Solid Waste Management Board	Racing Commission	Public Defender Corporation	Total
\$2,106	\$28,463	\$2,292	\$ 46,487
—	—	—	8,605
174	421	—	3,116
—	—	—	990
—	—	—	77
2	—	32	909
2,867	2,515	—	5,954
<u>139</u>	<u>—</u>	<u>—</u>	<u>139</u>
<u>5,288</u>	<u>31,399</u>	<u>2,324</u>	<u>66,277</u>
1,322	—	—	1,673
<u>18</u>	<u>25</u>	<u>666</u>	<u>44,140</u>
1,340	25	666	45,813
6,628	31,424	2,990	112,090
102	580	30	2,199
—	—	80	361
—	24	—	69
—	—	—	170
—	—	16	428
<u>—</u>	<u>—</u>	<u>—</u>	<u>374</u>
<u>102</u>	<u>604</u>	<u>126</u>	<u>3,601</u>
—	2,515	—	2,515
404	—	—	404
—	—	152	20,455
<u>73</u>	<u>304</u>	<u>545</u>	<u>1,983</u>
<u>477</u>	<u>2,819</u>	<u>697</u>	<u>25,357</u>
579	3,423	823	28,958
18	25	666	43,303
4,128	—	—	4,479
<u>1,903</u>	<u>27,976</u>	<u>1,501</u>	<u>35,350</u>
<u>\$6,049</u>	<u>\$28,001</u>	<u>\$2,167</u>	<u>\$ 83,132</u>

**Combining Statement of Activities
Nonmajor Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)**

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Component Units:				
Educational Broadcasting Authority	\$11,290	\$ 2,184	\$1,343	\$ (7,763)
Jobs Investment Trust	1,795	150	—	(1,645)
WV State Rail Authority	3,876	1,845	—	(2,031)
Solid Waste Management Board	2,193	2,188	—	(5)
Racing Commission	21,108	26,089	—	4,981
Public Defender Corporation	<u>13,207</u>	<u>—</u>	<u>—</u>	<u>(13,207)</u>
Total Component Units	<u>\$53,469</u>	<u>\$32,456</u>	<u>\$1,343</u>	<u>\$(19,670)</u>

General Revenue

<u>Unrestricted Investment Earnings</u>	<u>Miscellaneous</u>	<u>Payments from the State of West Virginia</u>	<u>Total General Revenue</u>	<u>Change in Net Assets</u>	<u>Net Assets, Beginning of Year</u>	<u>Net Assets, End of Year</u>
\$ 10	\$1,314	\$ 5,168	\$ 6,492	\$(1,271)	\$ 8,874	\$ 7,603
463	—	—	463	(1,182)	4,540	3,358
65	101	3,159	3,325	1,294	34,660	35,954
31	1	—	32	27	6,022	6,049
703	—	—	703	5,684	22,317	28,001
<u>14</u>	<u>7</u>	<u>12,676</u>	<u>12,697</u>	<u>(510)</u>	<u>2,677</u>	<u>2,167</u>
<u>\$1,286</u>	<u>\$1,423</u>	<u>\$21,003</u>	<u>\$23,712</u>	<u>\$ 4,042</u>	<u>\$79,090</u>	<u>\$83,132</u>



Statistical Section

Expenditures

Revenues

Bonds

Debt Service

Demographics

Miscellaneous



**Statistical Section
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Revenue Capacity Information - These schedules contain trend information to help the reader understand the State's capacity to raise revenues and the sources of those revenues.

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Debt Capacity Information - These schedules contain trend information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future.

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Demographic and Economic Information - These schedules offer indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information - These schedules assist the reader in evaluating the size, efficiency, and effectiveness of the state government.

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Miscellaneous Statistics - This information may provide the reader with more insight into the State's financial and demographic status.

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Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule 1
Net Assets by Component
Last Five Fiscal Years
(Expressed in Thousands)

	2006	2005 Restated	2004 Restated	2003	2002
Governmental Activities					
Invested in Capital Assets, Net of Related Debt	\$ 6,771,494	\$ 6,448,005	\$ 6,196,704	\$ 5,910,605	\$ 5,424,495
Restricted	714,802	1,262,989	1,078,859	772,580	523,238
Unrestricted Assets (Deficit)	<u>91,573</u>	<u>(817,257)</u>	<u>(667,181)</u>	<u>(548,510)</u>	<u>(549,510)</u>
Total Governmental Activities Net Assets	<u>\$ 7,577,869</u>	<u>\$ 6,893,737</u>	<u>\$ 6,608,382</u>	<u>\$ 6,134,675</u>	<u>\$ 5,398,223</u>
Business-type Activities					
Invested in Capital Assets, Net of Related Debt	\$ 2,775	\$ 9,361	\$ 9,372	\$ 10,900	\$ 10,169
Restricted	944,256	775,140	687,891	809,685	821,418
Unrestricted Assets (Deficit)*	<u>(2,017,602)</u>	<u>(2,224,984)</u>	<u>(2,897,674)</u>	<u>(3,256,853)</u>	<u>(2,645,138)</u>
Total Business-type Activities Net Assets (Deficit)	<u>\$(1,070,571)</u>	<u>\$(1,440,483)</u>	<u>\$(2,200,411)</u>	<u>\$(2,436,268)</u>	<u>\$(1,813,551)</u>
Primary Government					
Invested in Capital Assets, Net of Related Debt	\$ 6,774,269	\$ 6,457,366	\$ 6,206,076	\$ 5,921,505	\$ 5,434,664
Restricted	1,659,058	2,038,129	1,766,750	1,582,265	1,344,656
Unrestricted Assets (Deficit)	<u>(1,926,029)</u>	<u>(3,042,241)</u>	<u>(3,564,855)</u>	<u>(3,805,363)</u>	<u>(3,194,648)</u>
Total Primary Government Net Assets	<u>\$ 6,507,298</u>	<u>\$ 5,453,254</u>	<u>\$ 4,407,971</u>	<u>\$ 3,698,407</u>	<u>\$ 3,584,672</u>

Note: The State implemented Governmental Accounting Standards Boards Statement No. 34 during fiscal year 2002; the relevant government-wide schedules are effective beginning in fiscal year 2002.

*The Workers' Compensation Fund (WCF) had negative claims payment trends during fiscal years ended June 30, 2001 and 2002, which continued into fiscal 2003. In June 2003, a special legislative session passed several pieces of legislation making major changes to the workers' compensation laws that became effective in fiscal year 2004. These changes caused the WCF deficit to improve. In February 2005, additional legislation was passed that caused the formation of an employer's mutual insurance company to replace the WCF. The "workers' compensation old fund" was created for those funds due and owing the workers' compensation fund as of June 30, 2005. The old fund did not novate to the new employer's mutual.

Schedule 2
Changes in Net Assets
Last Five Fiscal Years
(Expressed in Thousands)

	2006	2005 Restated	2004 Restated	2003	2002
Governmental Activities					
Expenses:					
Legislative	\$ 25,345	\$ 27,558	\$ 30,623	\$ 28,009	\$ 19,742
Judicial	77,789	77,668	83,653	77,487	72,387
Executive	104,726	134,506	115,413	127,350	121,744
Administration	147,774	210,434	136,960	148,812	139,177
Commerce	235,749	229,216	259,071	225,886	193,483
Environmental Protection	125,216	267,544	1,410	71,278	110,661
Employment Programs	72,069	31,445	39,007	35,115	47,520
Education	2,669,307	2,418,672	2,399,688	2,373,873	2,299,817
Health and Human Resources	3,119,005	3,221,458	3,056,163	2,683,578	2,605,461
Military Affairs and Public Safety	417,606	588,409	324,636	296,165	253,806
Revenue	71,158	32,718	68,596	39,705	27,240
Transportation	780,950	835,813	753,901	755,565	1,056,651
Senior Services	30,115	29,373	29,271	28,523	30,538
Regulatory Boards and Commissions	33,082	25,671	45,145	30,177	24,376
Interest on Long-Term Debt	93,401	85,402	76,406	74,027	75,553
Total Expenses	<u>8,003,292</u>	<u>8,215,887</u>	<u>7,419,943</u>	<u>6,995,550</u>	<u>7,078,156</u>
Program Revenues:					
Charges for Services:					
Legislative	1,824	1,859	1,806	1,763	1,956
Judicial	919	901	925	929	916
Executive	15,872	1,223	5,274	251	7,286
Administration	49,492	12,390	25,606	6,692	17,435
Commerce	41,885	42,115	40,658	37,688	43,772
Environmental Protection	54,877	55,254	46,730	50,326	41,911
Employment Programs	—	—	283	—	—
Education	4,465	4,133	3,846	3,383	4,791
Health and Human Resources	84,428	82,325	73,150	56,631	72,335
Military Affairs and Public Safety	5,317	8,884	6,679	5,957	6,636
Revenue	44,229	26,303	26,683	25,089	20,249
Transportation	97,064	99,532	88,777	93,569	95,673
Senior Services	—	—	—	—	285
Regulatory Boards and Commissions	26,789	23,017	31,641	27,033	26,077
Total Charges for Services	<u>427,161</u>	<u>357,936</u>	<u>352,058</u>	<u>309,311</u>	<u>339,322</u>
Operating Grants and Contributions:					
Legislative	545	646	749	525	5,008
Judicial	436	—	156	(35)	136
Executive	27,138	45,805	39,587	46,974	34,205
Administration	56,748	52,316	46,288	34,987	27,146
Commerce	32,749	76,340	74,990	82,009	63,335
Environmental Protection	44,255	88,395	88,183	71,934	70,221
Employment Programs	65,303	30,805	36,995	35,594	48,331
Education	369,428	358,853	324,292	311,847	310,091
Health and Human Resources	2,224,260	2,285,865	2,179,003	1,998,922	1,869,026
Military Affairs and Public Safety	60,756	95,874	81,767	65,847	92,131
Revenue	214	200	30	9	46
Senior Services	11,594	12,634	12,148	11,664	12,178
Regulatory Boards and Commissions	4,376	8,306	7,460	2,045	1,484
Total Operating Grants and Contributions	<u>2,897,802</u>	<u>3,056,039</u>	<u>2,891,648</u>	<u>2,662,322</u>	<u>2,533,338</u>
Capital Grants and Contributions:					
Administration	—	—	213	19	130
Education	233	217	99	—	—
Military Affairs and Public Safety	10,127	26,255	38,731	11,303	—
Transportation	447,727	453,719	438,974	411,280	424,558
Total Capital Grants and Contributions	<u>458,087</u>	<u>480,191</u>	<u>478,017</u>	<u>422,602</u>	<u>424,688</u>
Total Program Revenues	<u>3,783,050</u>	<u>3,894,166</u>	<u>3,721,723</u>	<u>3,394,235</u>	<u>3,297,348</u>
Total Governmental Activities Net Program Expenses	<u>(4,220,242)</u>	<u>(4,321,721)</u>	<u>(3,698,220)</u>	<u>(3,601,315)</u>	<u>(3,780,808)</u>

Note: This information was not available prior to GASB 34 implementation in 2002.

	2006	2005 Restated	2004 Restated	2003	2002
General Revenues and Other Changes in Net Assets					
Taxes:					
Personal Income	1,330,913	1,163,211	1,073,512	1,048,172	1,052,023
Consumer Sales	981,536	979,357	965,378	917,072	925,317
Business	920,940	726,878	554,734	551,910	585,182
Medicaid	169,866	154,070	150,335	143,036	146,812
Transportation	501,022	502,659	477,159	466,273	481,436
Other	382,718	377,878	359,341	291,776	263,966
Entitlements and Grants	229	912	—	—	—
Unrestricted Investment Earnings	71,233	54,240	15,753	52,446	55,038
Tobacco Settlement Revenues	33,137	56,825	53,850	32,521	32,430
Federal Appropriations - Jobs Growth Tax Relief	—	—	30,746	30,747	—
Miscellaneous	74,047	93,281	52,123	127,287	93,988
Special Item	—	—	—	—	(85,262)
Transfers	438,733	484,308	411,164	355,533	267,446
Total General Revenue, Special Item, and Transfers	<u>4,904,374</u>	<u>4,593,619</u>	<u>4,144,095</u>	<u>4,016,773</u>	<u>3,818,376</u>
Total Governmental Activities Changes in Net Assets	<u>\$ 684,132</u>	<u>\$ 271,898</u>	<u>\$ 445,875</u>	<u>\$ 415,458</u>	<u>\$ 37,568</u>
Business-type Activities					
Expenses:					
West Virginia Lottery	\$ 1,096,893	\$ 839,241	\$ 776,124	\$ 670,041	\$ 563,078
Water Pollution Control Revolving Fund	1,718	1,786	1,914	1,752	1,821
Workers' Compensation Fund	392,975	189,753	579,433	1,276,891	1,148,221
Unemployment Compensation	147,308	143,989	195,359	224,897	173,934
Public Employees' Insurance Agency	545,384	506,837	449,905	410,413	395,743
Board of Risk and Insurance Management	41,256	60,969	96,658	82,591	71,706
Other Business-type Activities	66,631	58,910	62,202	55,082	74,681
Total Expenses	<u>2,292,165</u>	<u>1,801,485</u>	<u>2,161,595</u>	<u>2,721,667</u>	<u>2,429,184</u>
Program Revenues:					
Charges for Services:					
West Virginia Lottery	1,522,532	1,399,073	1,303,434	1,081,894	848,598
Water Pollution Control Revolving Fund	3,383	2,953	2,843	2,862	2,369
Workers' Compensation Fund	524,269	718,382	628,682	549,742	539,402
Unemployment Compensation	148,731	144,030	137,872	133,840	138,210
Public Employees' Insurance Agency	567,107	525,130	505,995	438,056	366,701
Board of Risk and Insurance Management	78,787	85,123	105,435	73,281	46,670
Other Business-type Activities	73,155	67,553	63,754	62,088	63,171
Total Charges for Services	<u>2,917,964</u>	<u>2,942,244</u>	<u>2,748,015</u>	<u>2,341,763</u>	<u>2,005,121</u>
Operating Grants and Contributions:					
Unemployment Compensation	—	—	21,681	30,733	48,613
Total Operating Grants and Contributions	<u>—</u>	<u>—</u>	<u>21,681</u>	<u>30,733</u>	<u>48,613</u>
Capital Grants and Contributions:					
Water Pollution Control Revolving Fund	20,241	—	—	—	—
West Virginia Lottery	—	—	—	—	5,250
Total Capital Grants and Contributions	<u>20,241</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,250</u>
Total Revenues	<u>2,938,205</u>	<u>2,942,244</u>	<u>2,769,696</u>	<u>2,372,496</u>	<u>2,058,984</u>
Total Business-type Activities Net Program Expenses	<u>646,040</u>	<u>1,140,759</u>	<u>608,101</u>	<u>(349,171)</u>	<u>(370,200)</u>
Business-type Activities General Revenues and Other Changes in Net Assets					
Unrestricted Investment Earnings	65,758	104,011	51,190	75,250	3,204
Tobacco Settlement Revenue	45,000	—	—	—	—
Miscellaneous	51,847	(534)	(12,270)	6,737	83,448
Transfers	(438,733)	(484,308)	(411,164)	(355,533)	(267,446)
Total Business-type Activities General Revenues and Other Changes in Net Assets	<u>(276,128)</u>	<u>(380,831)</u>	<u>(372,244)</u>	<u>(273,546)</u>	<u>(180,794)</u>
Total Business-type Activities Changes in Net Assets	<u>\$ 369,912</u>	<u>\$ 759,928</u>	<u>\$ 235,857</u>	<u>\$ (622,717)</u>	<u>\$ (550,994)</u>
Total Primary Government Change in Net Assets	<u>\$ 1,054,044</u>	<u>\$ 1,031,826</u>	<u>\$ 681,732</u>	<u>\$ (207,259)</u>	<u>\$ (513,426)</u>

Schedule 3
Fund Balances
Governmental Funds
Last Ten Fiscal Years
(Expressed in Thousands)

	2006	2005 Restated	2004 Restated	2003	2002
General Fund					
Reserved	\$ 328,482	\$ 486,474	\$ 529,986	\$ 316,594	\$ 335,866
Unreserved	<u>1,079,851</u>	<u>391,457</u>	<u>293,847</u>	<u>312,519</u>	<u>251,520</u>
Total General Fund	<u>1,408,333</u>	<u>877,931</u>	<u>823,833</u>	<u>629,113</u>	<u>587,386</u>
Other Governmental Funds					
Reserved:					
Special Revenue Funds	\$ 410,115	\$ 363,526	\$ 338,275	\$ 291,364	\$ 397,894
Permanent Funds	1,886	235,210	187,736	141,903	—
Capital Projects	236,561	—	136,845	192,967	201,682
Debt Service	131,765	—	131,787	96,072	93,423
Unreserved, Reported in:					
Special Revenue Funds	562,996	539,296	471,373	414,765	347,034
Capital Projects	—	276,443	—	—	—
Debt Service	<u>—</u>	<u>124,910</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Other Governmental Funds	<u>1,343,323</u>	<u>1,539,385</u>	<u>1,266,016</u>	<u>1,137,071</u>	<u>1,040,033</u>
Total Fund Balances, Governmental Funds	<u>\$2,751,656</u>	<u>\$2,417,316</u>	<u>\$2,089,849</u>	<u>\$1,766,184</u>	<u>\$1,627,419</u>

Note: GASB 34 was implemented in fiscal year 2002. This Standard required the reclassification of certain funds.



Schedule 4
Changes in Fund Balances
Governmental Funds
Last Ten Fiscal Years
(Expressed in Thousands)

	2006	2005	2004 (Restated)	2003
Revenues				
Taxes:				
Personal Income	\$1,329,796	\$1,170,202	\$1,070,282	\$1,038,181
Consumer Sales	989,642	978,115	963,327	917,072
Severance	355,680	287,774	211,236	193,680
Corporate Net Income	380,287	255,772	166,511	83,311
Business and Occupation	184,364	182,090	176,987	178,364
Medicaid	169,866	154,070	150,335	143,036
Business Franchise	—	—	—	96,555
Gasoline and Motor Carrier	330,538	320,891	275,471	227,793
Automobile Privilege	170,484	3,005	173,225	169,431
Wholesale Motor Fuel	—	178,763	28,463	69,049
Other	380,711	371,667	359,341	291,776
Intergovernmental	3,037,432	3,235,199	3,119,073	2,868,461
Licenses, Permits, and Fees	194,681	173,181	176,513	157,864
Motor Vehicle Registration	92,681	93,144	84,977	88,967
Charges for Services	121,420	120,759	108,387	90,817
Investment Earnings	101,736	79,534	40,562	67,843
Food Stamp Revenue	265,344	252,097	228,000	211,218
Other	<u>121,654</u>	<u>156,780</u>	<u>112,585</u>	<u>151,272</u>
Total Revenues	<u>8,226,316</u>	<u>8,013,043</u>	<u>7,445,275</u>	<u>7,044,690</u>
Expenditures				
Current:				
Legislature	25,322	27,594	30,634	28,901
Judicial	82,381	84,283	81,577	77,816
Executive	122,576	122,415	115,418	113,661
Administration	95,227	150,333	87,834	87,109
Commerce	243,092	224,147	273,748	234,672
Environmental Protection	109,829	98,576	118,592	103,566
Employment Programs	75,438	36,609	40,183	38,401
Education	2,690,459	2,423,094	2,323,733	2,316,665
Health and Human Resources	3,135,884	3,237,580	3,056,762	2,709,057
Military Affairs and Public Safety	389,909	609,215	338,907	293,611
Revenue	42,725	60,630	44,765	40,845
Transportation	531,848	573,184	531,214	541,219
Senior Services	30,118	29,455	29,230	28,676
Regulatory Boards and Commissions	33,345	27,561	44,680	31,213
Capital Outlay	550,415	490,195	573,295	535,008
Debt Service	—	—	—	—
Principal	74,427	95,400	65,780	64,176
Interest	<u>89,788</u>	<u>80,777</u>	<u>74,386</u>	<u>72,678</u>
Total Expenditures	<u>8,322,783</u>	<u>8,371,048</u>	<u>7,830,738</u>	<u>7,317,274</u>
Excess of Revenues Over (Under) Expenditures	(96,467)	(358,005)	(385,463)	(272,584)
Other Financing Sources (Uses):				
Face Value of Long-Term Debt Issued	54,800	463,005	294,895	32,370
Premiums on Bonds Issued	697	5,146	—	(1,039)
Discounts on Bonds Issued	—	68,242	(1,719)	—
Capital Lease Acquisition	13,359	—	15,050	60,428
Proceeds from Long-Term Obligations	—	—	—	—
Proceeds of Refunded Bonds	—	—	—	—
Payments to Refunded Bonds Escrow Agents	(56,062)	(321,405)	—	(31,325)
Transfers In	875,203	667,841	589,701	517,171
Transfer from Component Unit	—	—	—	—
Transfers Out	(457,190)	(197,357)	(188,799)	(166,256)
Transfer In from Component Unit	—	—	—	—
Transfers To Component Units	—	—	—	—
Other	—	—	—	—
Total Other Financing Sources (Uses)	<u>430,807</u>	<u>685,472</u>	<u>709,128</u>	<u>411,349</u>
Net Changes in Fund Balances	<u>\$ 334,340</u>	<u>\$ 327,467</u>	<u>\$ 323,665</u>	<u>\$ 138,765</u>
Debt Service as a Percentage of Noncapital Expenditures	2.16%	2.29%	1.97%	2.06%

Note: The State implemented Governmental Accounting Standards Boards Statement No. 34 during fiscal year 2002; the relevant

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$1,049,532	\$1,023,536	\$ 985,976	\$ 917,765	\$ 871,803	\$ 810,350
922,882	878,355	878,690	852,815	817,406	797,575
187,287	194,223	169,914	180,775	204,891	187,997
93,846	106,974	123,271	159,475	143,716	163,210
173,839	178,860	166,883	182,268	180,475	183,393
146,812	146,053	134,274	127,497	124,458	122,439
129,457	100,551	100,465	93,744	81,036	90,675
229,650	227,805	224,029	225,761	223,068	207,297
180,472	155,623	153,927	143,356	134,354	126,157
71,314	71,521	68,373	69,405	67,945	68,103
263,717	250,316	235,471	242,229	218,272	213,862
2,733,567	2,527,788	2,284,824	1,959,378	2,021,678	1,932,627
149,124	215,365	243,393	218,797	191,407	175,835
91,373	—	—	—	—	—
106,596	145,835	175,683	211,899	201,220	248,874
63,188	99,720	85,879	75,390	89,253	61,653
195,245	176,884	189,960	212,770	229,010	236,640
<u>132,025</u>	<u>94,735</u>	<u>99,522</u>	<u>51,189</u>	<u>74,916</u>	<u>79,284</u>
<u>6,919,926</u>	<u>6,594,144</u>	<u>6,320,534</u>	<u>5,924,513</u>	<u>5,874,908</u>	<u>5,705,971</u>
19,740	37,860	20,056	21,267	18,340	17,805
73,824	65,270	60,326	55,657	51,257	48,967
125,116	110,349	108,915	103,452	104,687	95,161
75,563	75,329	49,602	39,986	41,764	36,285
207,759	173,114	171,260	182,801	171,751	163,532
109,677	110,616	55,949	80,726	76,101	80,883
49,146	40,101	91,720	35,912	31,740	42,611
1,822,346	1,775,773	1,721,402	1,596,285	1,562,866	1,482,875
2,612,846	2,322,313	2,276,733	2,093,493	2,127,728	2,028,874
280,315	238,627	216,189	224,876	184,831	160,700
26,862	100,551	82,994	86,235	75,322	72,323
825,011	407,736	400,893	386,229	364,950	394,555
30,584	—	—	—	—	—
24,878	46,975	44,829	77,522	69,906	83,028
447,941	814,191	725,123	593,753	586,367	595,910
124,576	115,687	123,080	134,597	100,143	98,497
—	—	—	—	—	—
—	—	—	—	—	—
<u>6,856,184</u>	<u>6,434,492</u>	<u>6,149,071</u>	<u>5,712,791</u>	<u>5,567,753</u>	<u>5,402,006</u>
63,742	159,652	171,463	211,722	307,155	303,965
110,000	—	—	—	—	—
4,172	—	—	—	—	—
—	—	—	—	—	—
177,270	—	—	—	—	—
—	155,830	153,082	316,548	220,491	157,379
—	—	—	121,735	—	130,519
—	—	—	(113,379)	(104,129)	(135,150)
472,711	359,243	293,713	489,066	228,616	221,994
—	1,000	—	—	—	—
(660,834)	(190,152)	(178,731)	(404,885)	(178,747)	(174,422)
—	—	—	—	11,792	—
—	(435,682)	(370,020)	(362,963)	(347,904)	(330,230)
—	—	413	—	—	—
<u>103,319</u>	<u>(109,761)</u>	<u>(101,543)</u>	<u>46,122</u>	<u>(169,881)</u>	<u>(129,910)</u>
<u>\$ 167,061</u>	<u>\$ 49,891</u>	<u>\$ 69,920</u>	<u>\$ 257,844</u>	<u>\$ 137,274</u>	<u>\$ 174,055</u>
1.98%	2.10%	2.32%	2.70%	2.05%	2.09%

government-wide schedules are effective beginning in fiscal year 2002.

Schedule 5
Revenue Base
Last Ten Years
(Expressed in Thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Personal Income by Industry - (Calendar Year)				
Farm Earnings	\$ (24,000)	\$ (2,000)	\$ (24,000)	\$ (8,000)
Agricultural/Forestry, Fishing, and Other	116,000	112,000	117,000	147,000
Mining	2,363,000	2,050,000	1,784,000	1,626,000
Construction	2,079,000	1,868,000	1,676,000	1,752,000
Manufacturing	3,932,000	3,917,000	3,776,000	3,720,000
Transportation, Warehousing, and Public Utilities	1,722,000	1,672,000	1,588,000	1,578,000
Wholesale Trade	1,327,000	1,223,000	1,122,000	1,118,000
Retail Trade	2,493,000	2,417,000	2,307,000	2,268,000
Finance, Insurance, and Real Estate	1,409,000	1,355,000	1,323,000	1,340,000
Service Industries	10,362,000	9,914,000	9,250,000	8,988,000
Federal, Civilian	1,892,000	1,794,000	1,646,000	1,561,000
Military	436,000	367,000	334,000	158,000
State and Local Government	5,182,000	4,987,000	4,788,000	4,660,000
Tax Revenue - (Fiscal Year)				
Consumer Sales	960,200	928,000	894,500	885,900
Personal Income	1,170,900	1,068,200	1,055,500	1,034,700
Severance	248,100	184,400	162,300	166,500
Corporate Income and Business Franchise	280,800	181,500	181,200	220,200
Motor Fuel	311,600	309,300	289,200	230,100
Automobile Privilege	178,763	173,225	169,431	180,472

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not provided. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. The most current period available is 2005.

Sources: Survey of Current Business, State of West Virginia Executive Budget, and Department of Highways.

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
\$ 28,000	\$ 8,000	\$ (11,000)	\$ (5,000)	\$ (6,000)	\$ (14,000)
142,000	114,000	107,000	88,000	79,000	76,000
1,619,000	1,368,000	1,440,000	1,453,000	1,501,000	1,561,000
1,819,000	1,438,000	1,351,000	1,344,000	1,332,000	1,321,000
3,786,000	3,525,000	3,360,000	3,394,000	3,297,000	3,375,000
1,611,000	1,798,000	1,781,000	1,726,000	1,674,000	1,693,000
1,098,000	1,145,000	1,123,000	1,083,000	1,058,000	1,003,000
2,206,000	2,325,000	2,219,000	2,154,000	2,066,000	2,011,000
1,258,000	1,076,000	1,040,000	932,000	886,000	844,000
8,509,000	6,417,000	6,054,000	5,671,000	5,346,000	5,130,000
1,483,000	1,366,000	1,273,000	1,204,000	1,166,000	851,000
180,000	168,000	155,000	145,000	143,000	94,000
4,450,000	3,902,000	3,706,000	3,493,000	3,383,000	3,001,000
852,500	845,800	829,000	794,300	775,200	745,500
1,020,700	965,700	919,900	866,100	786,200	750,900
163,200	148,700	148,400	175,200	176,900	158,900
214,300	217,800	263,100	221,500	251,300	235,200
224,400	224,300	227,100	220,300	201,800	204,900
155,623	153,927	143,356	134,354	126,157	—

Schedule 6
Revenue Rates
Last Ten Fiscal Years

Personal Income Tax

**Single, Head of Household, Widow(er) with Dependent Child
and Married Filing Jointly (Unchanged Over Last Ten Years)**

Less than \$10,000 3% of the taxable income

At least —	But less than —				
\$10,000	\$25,000	\$ 300.00	plus 4.0%	of excess over \$10,000	
\$25,000	\$40,000	\$ 900.00	plus 4.5%	of excess over \$25,000	
\$40,000	\$60,000	\$1,575.00	plus 6.0%	of excess over \$40,000	
\$60,000	\$2,775.00	plus 6.5%	of excess over \$60,000	

Business

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Corporate Net Income, Applies to Corporations	9%	9%	9%	9%
Severance Tax:				
Timber	3.22%	3.22%	3.22%	3.22%
Oil/Gas	5%	5%	5%	5%
Coal	Various	Various	Various	Various
Consumer Sales Tax	6%	6%	6%	6%
Food Tax	5%	6%	6%	6%
Motor Fuel Excise Tax* (cents per gallon)	27.0	27.0	20.5	20.5
Automobile Privilege Tax (cents per dollar)	5	5	5	5

*On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate of 6.5 cents per invoiced gallon as of January 1, 2005.

All rates are set by the Legislature.

Source: State Tax Department and Department of Highways.

Married Filing Separately (Unchanged Over Last Ten Years)

Less than \$5,000 3% of the taxable income

At least —	But less than —				
\$ 5,000	\$12,500	\$ 150.00	plus 4.0%	of excess over \$ 5,000	
\$12,500	\$20,000	\$ 450.00	plus 4.5%	of excess over \$12,500	
\$20,000	\$30,000	\$ 787.50	plus 6.0%	of excess over \$20,000	
\$30,000	\$1,387.50	plus 6.5%	of excess over \$30,000	

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
9%	9%	9%	9%	9%	9%
3.22%	3.22%	3.22%	3.22%	3.22%	3.22%
5%	5%	5%	5%	5%	5%
Various	Various	Various	Various	Various	Various
6%	6%	6%	6%	6%	6%
6%	6%	6%	6%	6%	6%
20.5	20.5	20.5	20.5	20.5	20.5
5	5	5	5	5	5

Schedule 7
Revenue Payers by Industry/Category
Most Current Available Year and
Historical Comparison
 (Expressed in Thousands)

Sales Tax

Tax Year 2003				
Industry	Remittance	Percent of Total	Accounts	Percent of Total
Agriculture	\$ 20,329	2.2%	3,430	5.0%
Mining	2,595	0.3%	369	0.5%
Construction	13,524	1.5%	11,298	16.5%
Manufacturing	80,627	8.7%	5,299	7.8%
Wholesale Trade	69,304	7.4%	2,757	4.0%
Retail Trade	601,592	64.7%	20,584	30.1%
Finance	4,657	0.5%	1,101	1.6%
Services	<u>136,645</u>	<u>14.7%</u>	<u>23,586</u>	<u>34.5%</u>
Total	<u>\$929,273</u>	<u>100%</u>	<u>68,424</u>	<u>100%</u>

Tax Year 1998				
Industry	Remittance	Percent of Total	Accounts	Percent of Total
Agriculture	\$ 9,393	1.1%	2,872	4.1%
Mining	3,577	0.4%	435	0.6%
Construction	13,093	1.6%	10,655	15.1%
Manufacturing	50,826	6.2%	5,657	8.0%
Wholesale Trade	66,754	8.2%	3,233	4.6%
Retail Trade	542,491	66.3%	23,004	32.6%
Finance	3,270	0.4%	826	1.2%
Services	<u>128,688</u>	<u>15.8%</u>	<u>23,849</u>	<u>33.8%</u>
Total	<u>\$818,092</u>	<u>100%</u>	<u>70,531</u>	<u>100%</u>

Note: Due to confidentiality issues, the names of revenue payers are not provided. This information is an alternative regarding the sources of the State's revenue.

Source: West Virginia State Tax Department.

Personal Income Tax

Tax Year 2004

<u>Income Level</u>	<u>Tax Liability</u>	<u>Percent of Total</u>	<u>Returns</u>	<u>Percent of Total</u>
\$0 - \$10,000	\$ 2,618	0.2%	155,308	21.0%
\$10,000 - \$20,000	41,351	3.8%	146,516	19.8%
\$20,000 - \$40,000	145,362	13.3%	179,609	24.3%
\$40,000 - \$60,000	186,512	17.0%	109,618	14.9%
Over \$60,000	<u>718,933</u>	<u>65.7%</u>	<u>147,798</u>	<u>20.0%</u>
Total	<u>\$1,094,776</u>	<u>100%</u>	<u>738,849</u>	<u>100%</u>

Tax Year 1999

<u>Income Level</u>	<u>Tax Liability</u>	<u>Percent of Total</u>	<u>Returns</u>	<u>Percent of Total</u>
\$0 - \$10,000	\$ 3,490	0.4%	173,717	23.7%
\$10,000 - \$20,000	45,544	5.0%	159,304	21.7%
\$20,000 - \$40,000	150,812	16.6%	186,159	25.3%
\$40,000 - \$60,000	261,651	28.7%	105,881	14.4%
Over \$60,000	<u>449,161</u>	<u>49.3%</u>	<u>109,416</u>	<u>14.9%</u>
Total	<u>\$910,658</u>	<u>100%</u>	<u>734,477</u>	<u>100%</u>

Schedule 8
Ratios of Outstanding Debt
Last Ten Fiscal Years
(Expressed in Thousands)

Governmental Activities - Primary Government - Debt

<u>Year</u>	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Capital Leases</u>	<u>Total</u>
2006	\$772,912	\$726,249	\$354,000	\$1,853,161
2005	798,490	763,761	354,337	1,916,588
2004**	774,660	670,789	300,227	1,745,676
2003	804,635	409,106	300,899	1,514,640
2002	833,494	439,011	252,107	1,524,612
2001	748,459	464,587	61,865	1,274,911
2000	666,544	445,691	64,252	1,176,487
1999	593,999	587,915	25,987	1,207,901
1998	321,450	588,466	29,190	939,106
1997	267,165	606,014	30,196	903,375

Note: Details regarding the State's debt can be found in Note 10 to the basic financial statements. There is no business-type activities debt.

Governmental Funds Tax Income

<u>Year</u>	<u>Personal Income</u>	<u>Consumer Sales</u>	<u>Business</u>	<u>Transportation</u>	<u>Other</u>	<u>Total</u>
2006	\$1,330,913	\$981,536	\$920,940	\$501,022	\$382,718	\$4,117,129
2005	1,163,211	979,357	726,878	502,659	377,878	3,749,983
2004**	1,073,512	965,378	554,734	477,159	359,341	3,430,124
2003	1,048,172	917,072	551,910	466,273	291,776	3,275,203
2002	1,052,023	925,317	585,182	481,436	263,966	3,307,924
2001	1,023,536	878,355	580,608	454,949	250,316	3,187,764
2000	985,976	878,690	560,533	446,329	235,471	3,106,999
1999	917,765	852,815	616,262	438,522	242,229	3,067,593
1998	871,803	817,406	610,118	425,367	218,272	2,942,966
1997	810,350	797,575	625,275	401,557	213,862	2,848,619

All General Obligation Bonds carry a pledge of the state to levy taxes if funds are insufficient to meet debt service.

Infrastructure bonds are paid from the dedication of the first \$24 million in severance tax collections.

Safe Roads bonds are paid from a debt service fund which is administered by the West Virginia State Treasurer's Office. The Division of Highways makes a monthly transfer to this fund from the Road Fund. The monthly transfer amount is equal to 10% of the annual debt service requirement on all Safe Roads Bonds.

**Restated

General Obligation Bond Debt Ratios

<u>Year</u>	<u>General Obligation Bond Debt</u>	<u>Percent of Tax Income</u>	<u>Percent of Personal Income</u>	<u>Amount of Debt Per Capita*</u>
2006	\$772,912	18.77%	1.63%	\$0.43
2005	798,490	21.29%	1.76%	0.44
2004**	774,660	22.58%	1.79%	0.43
2003	804,635	24.57%	1.86%	0.45
2002	833,494	25.20%	1.99%	0.46
2001	748,459	23.48%	1.89%	0.41
2000	666,544	21.45%	1.77%	0.37
1999	593,999	19.36%	1.62%	0.33
1998	321,450	10.92%	0.92%	0.18
1997	267,165	9.38%	0.79%	0.15

Total Debt Ratios

<u>Year</u>	<u>Total Debt</u>	<u>Percent of Tax Income</u>	<u>Percent of Personal Income</u>	<u>Amount of Debt Per Capita*</u>
2006	\$1,853,161	45.01%	3.92%	\$1.02
2005	1,916,588	51.11%	4.24%	1.06
2004**	1,745,676	50.89%	4.03%	0.96
2003	1,514,640	46.25%	3.50%	0.84
2002	1,524,612	46.09%	3.64%	0.85
2001	1,274,911	39.99%	3.22%	0.71
2000	1,176,487	37.87%	3.13%	0.65
1999	1,207,901	39.38%	3.29%	0.67
1998	939,106	31.91%	2.68%	0.52
1997	903,106	31.70%	2.69%	0.50

*These ratios are calculated using the current fiscal year debt total divided by personal income and population for the prior calendar year. See Schedule 11 for personal income and population data.

Schedule 9
Long-Term Liabilities
Last Five Fiscal Years
(Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>Restated</u> <u>2004</u>	<u>2003</u>
Governmental Activities				
General Obligation Bonds	\$ 772,912	\$ 798,490	\$ 774,660	\$ 804,635
Revenue Bonds	726,249	763,761	670,789	409,106
Capital leases	354,000	354,337	300,227	300,899
Compensated Absences	278,444	276,099	274,406	250,427
Accrued and Other Liabilities	504,170	491,555	301,973	401,091
Net Pension Obligation	<u>260,822</u>	<u>276,175</u>	<u>279,958</u>	<u>254,102</u>
Total Governmental Activities	<u>\$2,896,597</u>	<u>\$2,960,417</u>	<u>\$2,602,013</u>	<u>\$2,420,260</u>
Business-type Activities				
Compensated Absences	\$ 4,511	\$ 8,623	\$ 7,983	\$ 7,638
Accrued Tuition Contract Benefits*	108,321	105,988	105,341	98,442
Insurance and Compensation Benefits	3,542,598	3,902,210	4,383,452	4,471,527
Liabilities Payable from Restricted Assets	<u>4,595</u>	<u>5,536</u>	<u>6,781</u>	<u>3,985</u>
Total Business-type Activities	<u>\$3,660,025</u>	<u>\$4,022,357</u>	<u>\$4,503,557</u>	<u>\$4,581,592</u>
Total Primary Government	<u>\$6,556,622</u>	<u>\$6,982,774</u>	<u>\$7,105,570</u>	<u>\$7,001,852</u>

Note: Further information regarding the liabilities listed above can be found in the long-term debt note of the basic financial statements.

*The West Virginia Prepaid College Plan was formed in 1999.

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$ 833,494	\$ 748,459	\$ 666,544	\$ 593,999	\$ 321,450	\$ 267,165
439,011	464,587	445,691	587,915	588,466	606,014
252,107	61,865	64,252	25,987	29,190	30,196
283,245	260,133	207,665	200,149	186,338	183,798
395,601	559,742	524,319	522,090	524,956	428,586
<u>221,364</u>	<u>232,457</u>	<u>233,823</u>	<u>228,174</u>	<u>232,019</u>	<u>236,029</u>
<u>\$2,424,822</u>	<u>\$2,327,243</u>	<u>\$2,142,294</u>	<u>\$2,158,314</u>	<u>\$1,882,419</u>	<u>\$1,751,788</u>
\$ 6,409	\$ 4,551	\$ 4,372	\$ 4,095	\$ 3,544	\$ 3,313
95,859	70,889	56,038	40,636	—	—
3,963,326	3,524,541	3,346,672	3,388,749	3,536,124	3,636,597
<u>5,045</u>	<u>6,020</u>	<u>6,924</u>	<u>7,757</u>	<u>8,532</u>	<u>9,241</u>
<u>\$4,070,639</u>	<u>\$3,606,001</u>	<u>\$3,414,006</u>	<u>\$3,441,237</u>	<u>\$3,548,200</u>	<u>\$3,649,151</u>
<u>\$6,495,461</u>	<u>\$5,933,244</u>	<u>\$5,556,300</u>	<u>\$5,599,551</u>	<u>\$5,430,619</u>	<u>\$5,400,939</u>

Schedule 10
Pledged Revenue Coverage
Last Ten Fiscal Years
 (Expressed in Thousands)

School Building Authority

The Authority provides funds for modern efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools. The bonds are paid by certain net profits of the West Virginia Lottery. Only total debt service was available prior to 2002.

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Current Year Debt Service Requirements			
				Principal	Interest	Total	Coverage
2006	\$42,754	\$1,252	\$41,502	\$20,030	\$19,349	\$39,379	1.05
2005	41,099	1,124	39,975	31,585	17,321	48,906	0.82
2004	42,501	1,854	40,647	24,490	15,498	39,988	1.02
2003	42,460	2,071	40,389	23,405	17,010	40,415	1.00
2002	43,449	2,591	40,858	19,465	18,523	37,988	1.08
2001	41,597	2,768	38,829	—	—	40,041	0.97
2000	42,983	2,709	40,274	—	—	40,127	1.00
1999	43,318	2,645	40,673	—	—	34,436	1.18
1998	38,373	4,376	33,997	—	—	33,007	1.03
1997	48,513	8,899	39,614	—	—	40,877	0.97

WV Infrastructure and Jobs Development Council

The primary source of repayment for the revenue and refunding bonds is the receipt of payments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation and revenue bond proceeds. New bonds were issued in 2006 to refund earlier bond issues. There were no revenue bonds for this agency prior to 2000.

2006	\$82,436	\$21,654	\$60,782	\$54,490	\$4,483	\$58,973	1.03
2005	24,150	18,759	5,391	840	4,517	5,357	1.01
2004	24,082	21,323	2,759	315	2,456	2,771	1.00
2003	24,143	21,609	2,534	135	2,466	2,601	0.97
2002	24,280	21,994	2,286	—	2,470	2,470	0.93
2001	24,500	23,383	1,117	—	1,063	1,063	1.05
2000	24,470	24,271	199	—	—	—	—

Economic Development Project Fund

West Virginia State Code Chapter 29, Article 22, Section 18a designates \$19 million annually from the “excess lottery revenue fund” to be paid into the economic development project fund created in subsection (d) for payment of revenue bonds issued pursuant to the same subsection. Interest on the account and any other amounts paid into the economic development project fund are also to be used for the repayment of the bonds, which were issued in 2004.

2006	\$22,627	\$100	\$22,527	\$ 7,165	\$11,767	\$18,932	1.19
2005	20,461	—	20,461	13,890	11,009	24,899	0.82
2004	19,019	—	19,019	—	—	—	—

Education, Arts, Sciences, and Tourism

Certain net profits of the Lottery as set forth in Chapter 29 Article 22 of the Code of West Virginia are transferred to the Trustee under the bond indenture. These bonds are subordinate as to lien and source of payment only to those certain School Building Authority Capital Improvement Bonds, series 1994.

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Current Year Debt Service Requirements			
				Principal	Interest	Total	Coverage
2006	\$10,860	\$—	\$10,860	\$7,375	\$2,421	\$9,796	1.11
2005	10,404	—	10,404	7,025	2,803	9,828	1.06
2004	10,196	—	10,196	6,690	3,140	9,830	1.04
2003	10,271	—	10,271	6,370	3,470	9,840	1.04
2002	10,291	—	10,291	6,070	3,781	9,851	1.04
2001	11,841	120	11,721	5,750	4,091	9,841	1.19
2000	13,685	—	13,685	5,450	4,402	9,852	1.39
1999	13,122	—	13,122	5,190	4,739	9,929	1.32
1998	12,766	3	12,763	7,410	4,991	12,401	1.03
1997	13,135	—	13,135	—	—	—	—

Housing Development Fund

Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment. The Fund is authorized by West Virginia State Code to issue bonds and notes for its various programs in an aggregate principal amount not to exceed \$1.25 billion outstanding at any one time, exclusive of refunded obligations. Bonds and notes issued by the Fund are considered obligations of the Fund and are not deemed to constitute a debt or liability of the State. All bonds are secured by a pledge of all mortgage loan repayments, all proceeds of federal or private mortgage insurance, interest received on any monies or securities held pursuant to the resolution, and the rights and interest of the Fund in and to the mortgage loans. The Fund also has an Economic Development Program to generate and promote job creation in the State. The Fund may issue up to \$30,000,000 in bonds under this program, although only \$15 million has been issued. The bonds issued under this program are included in the total bonds issued and are secured by the projects funded from the program.

2006	\$154,190	\$ 9,783	\$144,407	\$19,560	\$33,500	\$53,060	2.72
2005	185,696	7,448	178,248	20,050	34,595	54,645	3.26
2004	236,521	7,491	229,030	19,885	38,695	58,580	3.91
2003	205,965	10,391	195,574	19,550	47,320	66,870	2.92
2002	172,139	7,434	164,705	21,595	53,329	74,924	2.20
2001	138,058	6,743	131,315	19,185	48,359	67,544	1.94
2000	127,463	6,477	120,986	16,805	46,777	63,582	1.90
1999	147,976	6,307	141,669	14,790	52,635	67,425	2.10
1998	126,659	5,355	121,304	18,130	47,745	65,875	1.84
1997	116,750	4,866	111,884	17,260	43,254	60,514	1.85

(Continued)

Schedule 10

Pledged Revenue Coverage

Last Ten Fiscal Years

(Expressed in Thousands)

(Continued)

Water Development Authority

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Monies are loaned to municipalities, public service districts and other political subdivisions through purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the systems or other permanent financing. The aggregate principal amount of bonds and/or notes issued by the Authority may not exceed \$500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of \$440 million, the Legislature must pass a resolution authorizing this action. The Authority's long-term planning is accomplished within the confines of its authorized borrowing limit. Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment. 2002 and 2004 include retirement of revenue bonds.

<u>Fiscal Year</u>	<u>Operating Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Current Year Debt Service Requirements</u>			
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2006	\$16,334	\$569	\$15,765	\$ 5,120	\$12,123	\$ 17,243	0.91
2005	14,304	650	13,654	4,065	11,025	15,090	0.90
2004	15,540	615	14,925	109,965	12,435	122,400	0.12
2003	14,817	688	14,129	3,645	12,525	16,170	0.87
2002	19,225	629	18,596	49,340	14,028	63,368	0.29
2001	22,525	513	22,012	3,645	15,293	18,938	1.16
2000	21,154	462	20,692	3,120	13,773	16,893	1.22
1999	18,774	494	18,280	4,285	12,063	16,348	1.12
1998	17,548	398	17,150	2,780	12,543	15,323	1.12
1997	17,291	378	16,913	2,765	12,696	15,461	1.09

Higher Education

Various individual institutions, as well as the Fund, have issued bonds which are generally payable from tuition and registration fees. The 2004 refunding bonds are to be repaid using certain Lottery funds. During fiscal years 2004 and 2005, Higher Education had a series of revenue bond refinancings that resulted in an increase in principal and interest payments. Prior to 2002, compiled debt information was not available.

2006	\$1,254,971	\$1,147,583	\$107,388	\$20,527	\$33,149	\$ 53,676	2.00
2005	1,196,325	1,055,456	140,869	94,782	17,976	112,758	1.25
2004	1,113,067	988,177	124,890	97,911	18,813	116,724	1.07
2003	1,068,798	981,130	87,668	11,740	16,475	28,215	3.11
2002	1,000,040	913,409	86,631	10,957	11,677	22,634	3.83

West Virginia Regional Jail and Correctional Facility Authority

Revenue Bonds are secured by the regional jails and correctional facilities and an irrevocable pledge of the lease payments, which are generated by court fees, and are required to be in sufficient amount to pay principal and interest on the bonds when due. The bonds were issued in 2002.

<u>Fiscal Year</u>	<u>Operating Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Current Year Debt Service Requirements</u>			
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2006	\$85,389	\$67,623	\$17,766	\$3,940	\$4,926	\$8,866	2.00
2005	76,522	57,650	18,872	3,760	5,110	8,870	2.13
2004	63,390	54,475	8,915	3,585	5,284	8,869	1.01
2003	62,294	60,220	2,074	3,420	5,449	8,869	0.23
2002	63,188	57,796	5,392	3,110	5,606	8,716	0.62

Parkways, Economic Development and Tourism Authority

Revenue Bonds are secured by a pledge of substantially all Parkways, Economic Development and Tourism Authority operating revenues and all monies deposited into accounts created by the Trust Indentures. Only total debt service is available.

<u>Fiscal Year</u>	<u>Operating Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Total Debt Service</u>	<u>Coverage</u>
2006	\$61,806	\$31,414	\$30,392	\$10,801	2.81
2005	58,152	30,187	27,965	10,505	2.66
2004	57,826	28,706	29,120	12,439	2.34
2003	54,850	27,583	27,267	12,693	2.15
2002	54,821	27,366	27,455	11,240	2.44
2001	54,116	26,292	27,824	11,176	2.49
2000	54,410	26,211	28,199	11,249	2.51
1999	53,437	24,948	28,489	11,115	2.56
1998	52,898	28,330	24,568	11,125	2.21
1997	49,441	25,321	24,120	11,136	2.17

Note: Details regarding the State's debt can be found in Note 10 to the basic financial statements.

Source: School Building Authority; West Virginia Infrastructure and Jobs Development Council; Housing Development Fund; Water Development Authority; Higher Education; West Virginia Regional Jail and Correctional Facility Authority; and Parkways, Economic Development and Tourism Authority and bond indentures.

Schedule 11
Demographic and Economic Indicators

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Population				
West Virginia	1,816,856	1,812,548	1,810,347	1,804,529
Change	0.24%	0.12%	0.32%	0.17%
National	296,410,404	293,656,842	290,850,005	287,984,799
Change	0.94%	0.97%	0.99%	1.01%
Total Personal Income (Dollars in Millions)				
West Virginia	\$47,290	\$45,245	\$43,342	\$43,316
Change	4.52%	4.39%	0.07%	3.36%
National	\$10,295,000	\$9,713,000	\$9,169,000	\$8,882,000
Change	5.99%	5.93%	3.23%	1.81%
Per Capita Personal Income* (In Dollars)				
West Virginia	\$26,029	\$24,962	\$23,941	\$24,002
Change	4.27%	4.26%	(0.25)%	3.19%
National	\$34,495	\$33,090	\$31,463	\$30,810
Change	4.25%	5.17%	2.12%	0.77%
Median Age	40.7	40.2	39.9	39.5
Educational Attainment				
9th Grade or Less	10.0%	10.0%	10.0%	10.0%
Some High School, No Diploma	14.8%	14.8%	14.8%	14.8%
High School Diploma	39.4%	39.4%	39.4%	39.4%
Some College, No Degree	16.6%	16.6%	16.6%	16.6%
Associate, Bachelor's or Graduate Degree	19.2%	19.2%	19.2%	19.2%
Labor Force and Employment				
(People in Thousands)				
Civilian Labor Force	800.0	791.0	794.0	798.0
Employed	761.0	749.0	746.0	751.0
Unemployed	40.0	42.0	48.0	47.0
Unemployment Rate	5.0%	5.3%	6.0%	5.9%
Nonfarm Wage and Salary Workers Employed in West Virginia Goods Producing Industries:				
Mining	25.9	23.8	22.0	23.1
Construction	36.8	34.6	32.7	33.4
Manufacturing-Durable Goods	38.8	39.2	39.7	42.2
Manufacturing-Nondurable Goods	<u>23.0</u>	<u>23.8</u>	<u>24.9</u>	<u>26.5</u>
Total Goods Producing Industries	124.5	121.4	119.3	125.2
Non-Goods Producing Industries:				
Trade	113.6	111.9	110.4	111.3
Service	364.9	360.5	355.5	353.7
State and Local Government	121.7	121.4	120.6	120.9
Federal Government	<u>21.9</u>	<u>21.8</u>	<u>21.9</u>	<u>21.9</u>
Total Non-Goods Producing Industries	622.1	615.6	608.4	607.8
Total Nonfarm Wage and Salary Employment	746.6	737.0	727.7	733.0

*Per capita personal income is calculated by dividing total personal income by population.

Sources: Workforce West Virginia Research, Information, and Analysis Office and the Census.

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
1,801,438 (0.33)%	1,807,442 (0.24)%	1,811,799 (0.21)%	1,815,609 (0.19)%	1,819,113 (0.20)%	1,822,808 (0.05)%
285,107,923 1.03%	282,193,477 0.88%	279,731,000 1.15%	276,553,000 1.17%	273,368,000 1.20%	270,115,000 2.78%
\$41,902 5.86%	\$39,582 5.39%	\$37,557 2.28%	\$36,722 4.90%	\$35,005 4.11%	\$33,622 4.00%
\$8,724,000 3.49%	\$8,430,000 8.05%	\$7,802,000 5.11%	\$7,423,000 7.35%	\$6,915,000 6.19%	\$6,512,000 6.79%
\$23,261 6.22%	\$21,899 5.64%	\$20,729 2.49%	\$20,226 5.11%	\$19,243 4.33%	\$18,445 4.05%
\$30,574 2.44%	\$29,845 6.82%	\$27,939 3.93%	\$26,883 6.11%	\$25,334 4.79%	\$24,175 4.17%
39.3	39.0	38.9	38.5	38.1	37.7
10.0%	10.0%	16.8%	16.8%	16.8%	16.8%
14.8%	14.8%	17.3%	17.3%	17.3%	17.3%
39.4%	39.4%	36.6%	36.6%	36.6%	36.6%
16.6%	16.6%	13.2%	13.2%	13.2%	13.2%
19.2%	19.2%	16.1%	16.1%	16.1%	16.1%
801.0	809.0	813.0	807.0	801.0	795.0
759.0	765.0	762.0	755.0	746.0	736.0
42.0 5.2%	44.0 5.5%	51.0 6.3%	52.0 6.5%	54.0 6.8%	59.0 7.4%
23.5	21.4	22.3	24.6	25.1	26.2
34.9	34.0	33.8	34.4	34.9	34.3
44.5	46.6	46.7	46.5	45.6	45.5
<u>27.7</u>	<u>29.2</u>	<u>30.2</u>	<u>31.2</u>	<u>31.3</u>	<u>32.1</u>
130.6	131.2	133.0	136.7	136.9	138.1
113.7	117.4	117.0	115.4	114.3	113.5
350.0	344.1	335.1	326.4	317.4	308.3
119.2	120.6	119.2	119.0	117.9	118.8
<u>21.8</u>	<u>22.5</u>	<u>21.7</u>	<u>21.8</u>	<u>21.1</u>	<u>19.9</u>
604.7	604.6	593.0	582.6	570.7	560.5
735.3	735.8	726.0	719.3	707.6	698.6

Schedule 12
Principal Employers
Current Year and Nine Years Ago

As of June 30, 2006

Major West Virginia Employers	Number of Employees
State of West Virginia	40,000 - 49,999
Federal Government	20,000 - 24,999
Wal-Mart Associates, Inc.	10,000 - 19,999
West Virginia University Hospitals/United Hospitals	5,000 - 9,999
Charleston Area Medical Center	5,000 - 9,999
Kroger	2,500 - 4,999
CSX/CSX Hotels Inc. (The railroad and Greenbrier Hotel)	2,500 - 4,999
American Electric Power	2,500 - 4,999
Lowe's Home Centers, Inc.	1,000 - 2,499
Consolidation Coal Company	1,000 - 2,499
Verizon	1,000 - 2,499
St. Mary's Hospital	1,000 - 2,499

As of June 30, 1997

Major West Virginia Employers	Number of Employees
State of West Virginia	35,000 - 39,999
Federal Government	20,000 - 24,999
Weirton Steel Corporation	5,000 - 5,999
Charleston Area Medical Center	5,000 - 5,999
Kroger	4,000 - 4,999
Wal-Mart Stores, Inc.	4,000 - 4,999
E I DuPont De Nemours	3,000 - 3,999
Union Carbide Corporation	2,000 - 2,999
Ravenswood Aluminum	2,000 - 2,999
West Virginia University Hospitals	2,000 - 2,999
Kmart Corporation	2,000 - 2,999
Appalachian Power Company	2,000 - 2,999

Sources: Workforce West Virginia Fiscal and Administrative Management Office.

Schedule 13
Education Enrollment
Last Ten Fiscal Years

Public School Enrollment Grades Pre-K Through 12

<u>Year</u>	<u>Elementary (Pre-K to 6)</u>	<u>Secondary (7 to 12)</u>	<u>Total All Grades</u>
2005-06	152,969	126,819	279,788
2004-05	152,470	126,987	279,457
2003-04	153,616	126,945	280,561
2002-03	155,144	126,447	281,591
2001-02	155,635	126,597	282,232
2000-01	156,975	128,810	285,785
1999-00	157,972	132,972	290,944
1998-99	159,806	136,753	296,559
1997-98	161,231	140,083	301,314
1996-97	161,812	142,612	304,424

Higher Education Enrollment
Colleges and Universities

<u>Year</u>	<u>Public</u>		<u>Independent</u>	
	<u>Enrollment</u>	<u>Number of Certificates and Degrees</u>	<u>Enrollment</u>	<u>Number of Certificates and Degrees</u>
2005-06	84,713	14,206	10,811	2,575
2004-05	82,845	13,963	11,650	2,462
2003-04	80,837	13,141	11,625	2,357
2002-03	78,976	12,839	11,034	2,337
2001-02	78,315	12,302	10,066	2,021
2000-01	76,050	12,264	9,808	1,925
1999-00	76,751	12,108	9,837	1,923
1998-99	76,307	12,024	10,064	2,030
1997-98	75,920	11,975	10,271	1,992
1996-97	74,836	11,823	10,156	1,794

Sources: West Virginia Board of Education and West Virginia Higher Education Policy.

Schedule 14
State Employees by Function
Last Ten Fiscal Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Executive *	881	902	898	889
Legislature	204	203	201	200
Judicial	882	876	876	884
Administration	573	598	620	540
Commerce				
Natural Resources (Parks)	813	812	816	830
Tourism and Development	182	218	212	195
Other	758	1,513	1,630	1,696
Environmental Protection	843	862	851	852
Education and the Arts				
Department of Education	511	531	516	504
School for the Deaf and the Blind	204	193	200	204
Rehabilitation Services	694	721	716	723
Higher Education	9,959	9,746	9,450	9,432
Other	272	267	265	284
Tax and Revenue	1,024	774	768	762
Health and Human Resources	5,588	5,771	5,524	5,593
Military Affairs and Public Safety				
Corrections	1,632	1,592	1,555	1,562
Juvenile Services	601	601	565	431
State Police	987	980	972	949
Regional Jail Authority	869	876	858	760
All Other	520	491	482	477
Transportation	5,296	5,767	5,836	5,983
Miscellaneous	<u>395</u>	<u>419</u>	<u>529</u>	<u>450</u>
Total	<u>33,688</u>	<u>34,713</u>	<u>34,340</u>	<u>34,200</u>

* This includes the offices of the Governor, Treasurer, Secretary of State, Auditor, Attorney General, and Agriculture.

N/A = Not Available

Notes:

Separately audited agencies under Administration are not included prior to 2001.

The Workers' Compensation Commission was included under Commerce - Other in 2001 to 2005. In 2006, the Workers' Compensation Commission was privatized and approximately 300 of the employees moved to the Insurance Commission under Tax and Revenue.

Juvenile Services within the Department of Health and Human Resources and Corrections was combined into a separate Juvenile Services Division under Military Affairs and Public Safety in fiscal year 1998. Juvenile Services added 134 employees between 2003 and 2004 to staff new facilities.

The 1997 - 2000 employees for Transportation are Department of Highways only.

Sources: Leave system data warehouse reports and Higher Education Policy Commission.

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
863	799	803	727	695	616
202	190	201	192	172	164
848	841	812	764	728	711
539	527	151	158	155	254
824	823	817	818	816	817
201	156	164	165	160	154
1,624	1,640	366	367	370	361
763	758	767	771	768	795
503	470	447	452	413	414
218	205	210	209	205	220
715	699	720	723	719	714
9,643	9,457	9,463	9,195	9,123	8,971
288	265	136	134	136	N/A
739	648	620	670	676	698
5,545	5,538	5,478	5,364	5,063	5,228
1,505	1,375	1,397	1,310	1,104	1,111
424	286	208	202	—	—
934	975	1,005	1,002	938	929
740	604	N/A	N/A	N/A	N/A
441	393	342	304	300	302
6,358	6,977	4,975	5,048	5,161	5,231
<u>396</u>	<u>273</u>	<u>275</u>	<u>278</u>	<u>264</u>	<u>259</u>
<u>34,313</u>	<u>33,899</u>	<u>29,357</u>	<u>28,853</u>	<u>27,966</u>	<u>27,949</u>

Schedule 15
Operating Indicators by Function
Last Ten Fiscal Years

	2006	2005	2004	2003
Transportation				
Total highway construction projects authorized	1,105	1,232	1,165	1,064
Number of roadway resurfacing projects	481	490	488	384
Number of roadway miles resurfaced	1,239	1,208	1,070	1,040
WORKFORCE West Virginia (Employment Programs)				
Applications for job search services (in thousands)	N/A	97	152	163
Percent of registered applicants placed in jobs	N/A	21%	16%	17%
Tax and Revenue				
Percent of data managed electronically	N/A	44%	38%	31%
Number of returns filed electronically	N/A	313,659	290,312	232,907
Health and Human Resources				
Number of food stamp recipients	261,577	255,281	249,227	235,420
Number of food stamps issued	21,982,039	20,986,880	20,563,342	19,266,926
Individuals eligible to receive medicaid services	370,432	370,432	389,826	370,432
Medicaid enrollees	325,977	321,158	316,668	306,185
Counties enrolled in managed care*	89%	85%	62%	42%
Child support collections (in millions)	\$192	\$187	\$177	\$179
Students served by school-based health clinics	25,950	25,780	24,155	23,826
Eligible women receiving first trimester prenatal care	88%	84%	87%	86%
Breast-feeding initiation rate	42%	43%	43%	43%
Natural Resources				
Attendance at State Parks (in millions)	6.7	7.3	7.2	7.6
Attendance at Wildlife management areas (in millions)	2.3	2.5	2.5	2.6
Individuals whitewater rafting on rivers	201,734	209,542	227,752	218,444
Harvest of regulated big game	226,000	225,000	192,231	224,339
Organizations that adopted highways	1,575	1,550	1,518	1,481
Environmental Protection				
Division of Air Quality				
Number of air quality inspections	55	51	68	41
Response rate of air pollution-related complaints (goal is 90% or greater)	90%	97%	90%	89%
Division of Mining and Reclamation				
Surface mine blasting examinations and certifications	139	144	94	151
Surface mine mineral extraction inspections	21,891	20,867	20,193	18,885
Number of acres reclaimed through reclamation and restoration of land	12,655	10,963	9,893	9,470
Office of Miners Health and Safety				
Total safety inspections	6,100	5,737	5,984	5,787
Violations issued by mine Inspectors	12,000	10,784	8,454	6,539
Lost time injuries of mining personnel**	5,100	1,107	1,075	1,138
Military Affairs and Public Safety				
Division of Corrections				
Adult inmate housing capacity	4,520	4,070	4,070	3,880
Inmate employment (Prison Industries)	228	228	259	244
Youth successfully completed programs/returned to community	160	180	196	148
Veterans' Home				
Average daily number of residents	96	95	79	112
Average daily cost per resident	\$64.00	\$61.54	\$60.28	\$57.36
Senior Services				
Persons served under medicaid aged and disabled waiver	4,571	4,901	5,178	5,760

Items in bold are estimated figures; N/A = Not Available.

* There are 55 counties in West Virginia.

**Occasions when mining personnel were unable to work their next shift due to injuries.

Source: Agencies and Executive Budget document.

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
1,499	1,396	1,746	1,825	1,720	1,725
534	580	616	615	725	746
1,071	1,545	2,325	1,629	1,730	1,902
152	154	152	148	167	159
24%	17%	17%	17%	14%	14%
27%	22%	N/A	N/A	N/A	N/A
208,685	173,448	N/A	N/A	N/A	N/A
223,047	N/A	N/A	N/A	N/A	N/A
17,892,030	N/A	N/A	N/A	N/A	N/A
356,374	351,862	344,627	369,789	357,971	470,819
294,661	344,296	337,433	341,693	330,488	401,282
42%	42%	42%	27%	16%	16%
\$167	\$160	\$145	\$139	\$136	N/A
23,627	23,350	23,348	24,217	21,014	17,953
84%	83%	82%	84%	83%	82%
42%	40%	39%	38%	38%	37%
7.2	8	7.9	8.25	8.01	7.85
2.6	2.75	2.76	2.91	2.44	2.52
228,169	246,846	231,559	228,035	251,921	N/A
272,949	240,092	208,679	246,513	211,151	204,679
1,966	1,513	1,476	1,426	1,568	1,530
50	57	57	55	15	N/A
98%	97%	90%	88%	90%	90%
54	24	40	52	57	51
18,887	20,412	25,178	21,000	20,971	28,252
9,292	8,654	7,679	N/A	N/A	N/A
4,764	4,098	4,261	5,033	5,431	5,799
7,956	9,565	9,527	9,817	9,823	12,921
1,238	1,006	1,030	1,184	1,165	1,216
3,696	3,390	3,246	3,076	2,512	N/A
270	233	300	260	260	223
159	160	185	N/A	N/A	N/A
125	115	103	82	66	75
\$48.20	\$47.12	\$48.91	\$58.50	\$68.78	\$63.06
5,315	4,175	4,121	3,721	3,750	3,750

Schedule 16
Capital Assets Statistics by Function
Last Ten Fiscal Years
(Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Vehicles				
Executive	129	113	108	113
Judicial	5	6	4	4
Administration				
Agency-Owned	15	16	16	16
Leased to other agencies	<u>1,623</u>	<u>1,588</u>	<u>1,455</u>	<u>1,570</u>
Total Administration	1,638	1,604	1,471	1,586
Revenue	3	3	3	3
Commerce				
Division of Natural Resources	602	591	544	558
Division of Forestry	139	140	138	137
Others	<u>6</u>	<u>6</u>	<u>5</u>	<u>14</u>
Total Commerce	747	737	687	709
Environmental Protection	15	13	11	10
Education	38	42	42	42
Health and Human Services	70	67	60	61
Military Affairs and Public Safety (MAPS)				
West Virginia State Police	827	968	976	955
Division of Corrections	26	22	22	24
Veterans Affairs	51	32	32	21
Regional Jail	33	33	33	37
Others	<u>39</u>	<u>36</u>	<u>36</u>	<u>22</u>
Total MAPS	976	1,091	1,099	1,059
Regulatory Boards and Commissions	2	2	—	—
Boats				
Commerce	240	236	214	219
Environmental Protection	11	10	6	4
Buildings				
Executive	28	28	28	28
Administration	60	52	50	46
Revenue	2	2	2	2
Commerce				
Division of Natural Resources	224	221	221	215
Division of Forestry	4	4	4	4
Others	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total Commerce	234	231	231	225
Environmental Protection	7	7	4	4
Education	43	43	43	43
Health and Human Services	138	147	145	144
Military Affairs and Public Safety				
West Virginia State Police	81	81	80	78
Division of Corrections	53	50	47	46
Armory Board	171	171	168	167
Others	<u>38</u>	<u>38</u>	<u>36</u>	<u>33</u>
Total MAPS	343	340	331	324
Regulatory Boards and Commissions	1	1	1	1

Source: Financial Accounting and Reporting Section; West Virginia Financial Information Management System; Fixed Asset detailed ledger.

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
102	96	94	88	78	69
4	3	3	2	2	1
16	16	16	17	25	25
<u>1,678</u>	<u>1,580</u>	<u>1,493</u>	<u>1,339</u>	<u>1,238</u>	<u>1,224</u>
1,694	1,596	1,509	1,356	1,263	1,249
1	2	2	2	1	1
583	584	574	567	565	521
129	119	101	94	80	74
<u>17</u>	<u>23</u>	<u>26</u>	<u>30</u>	<u>30</u>	<u>33</u>
729	726	701	691	675	628
18	24	25	30	34	34
46	46	51	49	51	51
64	64	64	67	67	79
1,001	1,010	997	1,023	971	947
23	23	21	21	18	15
15	7	-	-	-	-
47	47	47	43	41	34
<u>20</u>	<u>17</u>	<u>14</u>	<u>11</u>	<u>8</u>	<u>3</u>
1,106	1,104	1,079	1,098	1,038	999
—	—	—	—	—	—
221	214	207	200	194	176
5	5	4	3	3	3
28	28	28	28	28	28
44	44	43	38	39	36
1	1	1	1	1	1
214	210	210	206	191	165
4	4	3	—	—	—
<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>1</u>
223	217	216	209	194	166
4	4	4	4	4	4
43	43	43	44	43	43
144	144	144	144	143	140
76	72	68	68	67	63
45	45	45	43	42	43
167	167	166	166	166	158
<u>33</u>	<u>25</u>	<u>22</u>	<u>18</u>	<u>17</u>	<u>15</u>
321	309	301	295	292	279
1	1	1	1	1	1

Schedule 17
Miscellaneous Statistics
June 30, 2006

Date of Statehood	June 20, 1863
<p>West Virginia shares its history with Virginia from 1609 until Virginia seceded from the Union in 1861. The delegates of 40 western counties formed their own government, which was granted statehood in 1863. Declared a state by President Abraham Lincoln, West Virginia is the only state to be designated by Presidential Proclamation.</p>	
Form of Government	Constitutional Representative Government
Branches of Government	Legislative - Executive - Judicial
Area (Land and Water)	24,231 square miles
Highest Elevation Point	Spruce Knob - 4,861 feet above sea level
Lowest Elevation Point	Harpers Ferry - 247 feet above sea level
Miles of Public Roads	35,879
State Police Protection:	
Number of State Police Detachments	60
Number of State Police Troopers	648
Higher Education (State Supported):	
Number of Campuses	22
Number of Students	86,088
Recreation:	
Number of State Parks	36
Area of State Parks	76,949 acres
Number of State Forests	9
Area of State Forests	79,041 acres
Number of Rail Trails	2
Distance of Rail Trails	150 miles
Wildlife Fish and Game Management Areas	94
Acreage of Wildlife Management Areas (Owned and Leased)	354,973 acres

Source: Division of Highways, Division of Public Safety, Higher Education Policy Commission and Division of Natural Resources.