WEST VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

West Virginia

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

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

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Joe Manchin III
Governor

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To the Honorable Members of the 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, 2005. 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,

Joe Manchin III
Governor

JM/po

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, 2005

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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

February 20, 2006

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, 2005. 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, 2005, are fairly presented in conformity with accounting principles generally accepted in the United States of America (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.

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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 accounting principles generally accepted in the United States. 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. The independent auditors concluded, based upon their audit and the reports of other auditors, 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 ranks second in the nation in coal production, and is also a leader in the chemical, steel, aluminum, natural gas, oil, and hardwood lumber industries. In addition, the State has a diverse economic base that includes energy, plastics, transportation equipment, biomedical technology, and distribution industries. Agriculture is an expanding element of the state's economy, annually producing $100 million worth of products, such as apples, peaches, turkeys, and broiler chickens.

West Virginia is on the upswing economically, adding jobs and residents, pushing down the unemployment rate, and making progress in closing the per capita personal income gap. The State's unemployment rate fell from 6.1% in 2003 to 5.3% in 2004, while the national rate fell from 6.0% to 5.5%. The State added 17,600 jobs from the third quarter of 2003 to the second quarter of 2005, a great improvement over the 9,700 jobs lost from the fourth quarter of 2000 through the third quarter of 2003. Finally, West Virginia's per capita personal income has risen from $23,256 in 2001 to $25,872 in 2004, which translates into an annual growth rate of 3.4% per year. That is well above the national rate of consumer price inflation during the period of 2.2% per year, and it implies that the average standard of living of the State's residents has risen.

While goods-producing sectors, as a group, lost jobs at a rapid pace during the 2000-2003 period, they have contributed to State job gains since 2003. In particular, job growth has been strong in the natural resources and mining and construction sectors. Gains in natural resources and mining reflect high coal and natural gas prices which are spurring activity. Natural resources and mining job growth is expected to remain positive as energy production in the State rises. Coal production is forecast to rise from 154 million tons in 2005 to 163 million tons by 2008 as additional coal mine investments come on-line. However, coal production will drift downward as rising emissions restrictions and the gradual installation of scrubbers at coal-burning electric power generating plants (as well as rising competition from coal produced in western states) eats into the demand for lower sulfur coals produced in the southern part of the State. Manufacturing job losses continue, but slow, during the forecast as many of the State's largest sectors contend with intense international competition and high energy costs. However, those losses are partially offset by gains in wood and furniture products, transportation equipment (defense-related ammunition, auto parts, and aircraft), and plastics and rubber. Construction job gains reflect low interest rates and an explosion of residential building activity in the Eastern Panhandle.

The upward swing in the State's economy is forecast to continue during the next five years, with expanding employment and rising inflation-adjusted income per capita, assuming continued national economic growth. The job forecast calls for the State to add 5,200 jobs per year during the next five years, which translates into an annual rate of growth of 0.7% per year. This is a great improvement over the average growth of 0.3% from the previous five years in West Virginia.

Long-term Financial Planning and Relevant Financial Policies

Last fiscal year 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. This fiscal year 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 2006 through FY 2008.

During FY 2009 through FY 2011, projected expenditures begin to outpace projected revenues. The main cost drivers are providing healthcare through the Medicaid and PEIA 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 Rainy Day Fund and the Tax Reduction and Federal Funding Increased Compliance (TRAFFIC) account maintained by the Legislature. During the 2006 Legislative Session, the Governor will request that the Legislature increase the allowable balance in the Rainy Day Fund to ten percent of the General Revenue Budget to provide the State with adequate reserves to meet unexpected challenges. In addition, the Governor will request surplus amounts above the ten percent General Revenue Fund amount be used for one-time expenditures, unfunded pension liabilities, and / or unfunded postemployment health care liabilities.

Major Initiatives

Governor Joe Manchin III has taken a "Responsible Government" initiative in the State to encourage new businesses. During the past year, West Virginia has accomplished substantial improvements to its economy and job growth.

Working closely with the Legislature, workers' compensation reforms restored confidence in the State's economy and enabled the State to perform better in protecting its injured workers. As a result of insurance reforms, more than $70 million dollars was returned to consumers in the form of reductions in their car and homeowner insurance premiums. Many lines of business insurance have been reopened and insurance companies that were considering reducing their operations and potentially laying off workers in West Virginia are now looking toward expansion.

The State Legislature approved a one percent reduction in the State sales tax on groceries from six cents on the dollar to five cents, resulting in a savings to taxpayers of $25 million. In addition, the State's gas tax was capped, saving drivers between $40 and $50 million this year alone at the pump.

Other "Responsible Government" initiatives have resulted in the following positive changes in State government:

- A reduction, through attrition, of approximately 171 full-time permanent positions in the Department of Transportation alone, saving millions of dollars
- Refinancing the State's road bonds for a direct savings of $19 million, resulting in federal matching money of $76 million for highway projects
- Renegotiating technology contracts, resulting in a savings to the state of $24.8 million over the next four years

These "Responsible Government" efforts, coupled with the hard work of the Legislature, resulted in more than $450 million being returned to taxpayers in the last year alone, a feat never before accomplished in West Virginia. This signals to businesses across the country and around the world that the State of West Virginia is officially *Open for Business!*

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 Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 1995 through 2004. 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 BRIM, 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 2004 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.

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, 2004

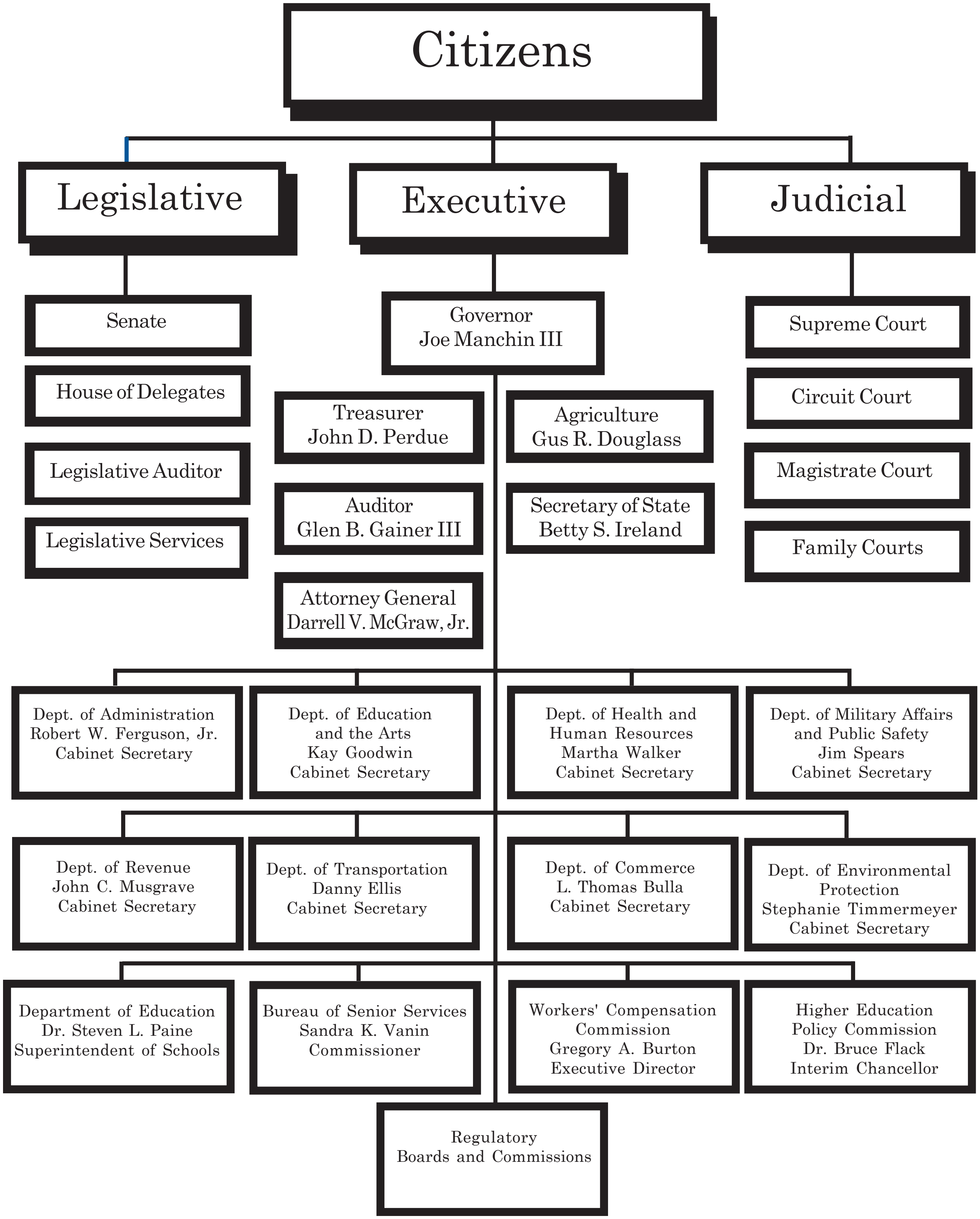
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

West Virginia

Organization Chart
As of December 31, 2005



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
Joseph P. Albright

Supreme Court Justice
Elliott E. Maynard

Supreme Court Justice
Robin Jean Davis

Supreme Court Justice
Brent D. Benjamin

Supreme Court Justice
Larry V. Starcher

As of December 31, 2005

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005, 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, the major funds, and the aggregate remaining fund information, which represent 74 percent of total assets, 94 percent of net assets, and 38 percent of total revenues for the governmental activities; 85 percent of total assets, 88 percent of net assets, and 80 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 Employment Security; and 91 percent of total assets, 92 percent of net assets/fund balance, and 89 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. 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, 2005, 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.

As discussed in Note 4 to the basic financial statements, in 2005, the State adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Also, as discussed in Note 15 to the financial statements, in 2005, the State changed its method of accounting for estimating the special reclamation liability.

The management's discussion and analysis on pages 4 through 19, the budgetary comparison information on pages 152 through 159, and pension plans schedule of funding progress on pages 160 to 162 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 164 through 203, 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.

Ernst + Young LLP

February 10, 2006

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, 2005. 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 one new standard in 2005 required by Governmental Accounting Standards Board (GASB), Statement No. 40, "Deposit and Investment Risk Disclosures." This resulted in significant changes to the investment disclosures presented in Note 4 to the financial statements.

FINANCIAL HIGHLIGHTS

Government-wide:
The assets of the primary government exceeded its liabilities at the close of the fiscal year by $5.3 billion (reported as "net assets"). Governmental activities reported $6.8 billion in net assets (a $188 million increase, up 2.9% from last year), while the business-type activities reported a deficit of $1.4 billion, a $760 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 $2.4 billion, an increase of $328 million, or 15.7%, in comparison with the prior year. The unreserved fund balance for the general fund was $403 million, or 5.8%, of total general fund expenditures.

General Revenue surpluses allowed $45 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 $40 million. The decrease includes bond and lease principal payments of $76 million and the refinancing of State road bonds of $348 million. This has been offset by new revenue bonds and capital leases of $575 million. Significant changes in the obligation included a decrease of Insurance and Compensation Benefits of $481 million and the environmental liabilities increased $136 million primarily due to an increase in the estimated Special Reclamation Fund obligation. The change in benefits is explained more fully in Note 14 and the environmental liabilities are discussed in more detail in Note 15.

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 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 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. 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 $948 million over the course of this fiscal year's operations. The net assets of the governmental activities increased $188 million ($168 million before restatement), or 2.9%, and business-type activities had an increase of $760 million, or 34.5%. The overall increase in the State's net assets is due primarily to increased Lottery sales, additional taxes collected due to a rebounding economy, and better management of the risk and insurance funds. The 2004 restated net assets of the governmental activities decreased by $20.7 million due to an understatement of the West Virginia Infrastructure and Jobs Development Council capital appreciation bonds outstanding. A more detailed description can be found in the long-term debt analysis of the MD&A and in Note 2.

Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	Restated 2004	2005	2004	2005	Restated 2004
Current and Other Assets	$ 3,460,543	$2,959,728	$ 2,909,319	$ 2,616,684	$ 6,369,862	$ 5,576,412
Capital Assets	7,210,801	7,023,555	9,361	9,372	7,220,162	7,032,927
Total Assets	10,671,344	9,983,283	2,918,680	2,626,056	13,590,024	12,609,339
Current and Other Liabilities	1,100,286	936,943	904,357	995,110	2,004,643	1,932,053
Long-Term Liabilities	2,794,918	2,458,691	3,454,806	3,831,357	6,249,724	6,290,048
Total Liabilities	3,895,204	3,395,634	4,359,163	4,826,467	8,254,367	8,222,101
Net Assets:						
Invested in Capital Assets, Net of Related Debt	6,330,408	6,196,704	9,361	9,372	6,339,769	6,206,076
Restricted	1,262,989	1,078,859	775,140	687,891	2,038,129	1,766,750
Unrestricted (Deficit)	(817,257)	(687,914)	(2,224,984)	(2,897,674)	(3,042,241)	(3,585,588)
Total Net Assets (Deficit)	$ 6,776,140	$6,587,649	$(1,440,483)	$(2,200,411)	$ 5,335,657	$ 4,387,238

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, 2005, unrestricted net assets were in a deficit position of $3 billion. This deficit is the result of, among other things, the historical negative claims payment trends of the Workers' Compensation Fund (discussed in detail in Note 14), the Bureau of Employment Programs' increase in restricted net assets, and Prepaid Tuition investment losses (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

Restricted net assets comprise 38% 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 2005 and 2004 (expressed in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	2005	Restated 2004	2005	2004	2005	Restated 2004
Program Revenues:						
Charges for Services	$ 357,936	$ 352,058	$ 2,942,244	$ 2,748,015	$ 3,300,180	$ 3,100,073
Operating Grants and Contributions	3,056,039	2,891,648	—	21,681	3,056,039	2,913,329
Capital Grants and Contributions	480,191	478,017	—	—	480,191	478,017
General Revenues:						
Personal Income Tax	1,163,211	1,073,512	—	—	1,163,211	1,073,512
Consumer Sales Tax	979,357	965,378	—	—	979,357	965,378
Business Taxes	726,878	554,734	—	—	726,878	554,734
Transportation Taxes	502,659	477,159	—	—	502,659	477,159
Other Taxes	531,948	509,676	—	—	531,948	509,676
Other Revenues	205,258	152,472	103,477	38,920	308,735	191,392
Total Revenues	8,003,477	7,454,654	3,045,721	2,808,616	11,049,198	10,263,270
Program Expenses:						
Legislative	27,558	30,623	—	—	27,558	30,623
Judicial	77,668	83,653	—	—	77,668	83,653
Executive	134,506	115,413	—	—	134,506	115,413
Administration	175,013	136,960	—	—	175,013	136,960
Commerce	291,716	279,804	—	—	291,716	279,804
Environmental Protection	267,544	1,410	—	—	267,544	1,410
Employment Programs	31,445	39,007	—	—	31,445	39,007
Education	2,418,672	2,399,688	—	—	2,418,672	2,399,688
Health and Human Resources	3,221,458	3,056,163	—	—	3,221,458	3,056,163
Military Affairs and Public Safety	644,737	324,636	—	—	644,737	324,636
Revenue	32,718	68,596	—	—	32,718	68,596
Transportation	835,813	753,901	—	—	835,813	753,901
Senior Services	29,373	29,271	—	—	29,373	29,271
Regulatory Board and Commissions	25,671	45,145	—	—	25,671	45,145
Interest on Long-term Debt	85,402	76,406	—	—	85,402	76,406
West Virginia Lottery	—	—	839,241	776,124	839,241	776,124
Workers' Compensation Fund	—	—	189,753	579,433	189,753	579,433
Employment Security	—	—	143,989	195,359	143,989	195,359
Water Pollution Control Revolving Fund	—	—	1,786	1,914	1,786	1,914
Public Employees' Insurance Agency	—	—	506,837	449,905	506,837	449,905
Board of Risk and Insurance Management	—	—	—	96,658	—	96,658
Other Nonmajor Business-type	—	—	119,879	62,202	119,879	62,202
Total Expenses	8,299,294	7,440,676	1,801,485	2,161,595	10,100,779	9,602,271
Increase (Decrease) in Net Assets Before Transfers	(295,817)	13,978	1,244,236	647,021	948,419	660,999
Transfers	484,308	411,164	(484,308)	(411,164)	—	—
Increase in Net Assets	188,491	425,142	759,928	235,857	948,419	660,999
Net Assets (Deficit), Beginning of Year, as Adjusted	6,587,649	6,162,507	(2,200,411)	(2,436,268)	4,387,238	3,726,239
Net Assets (Deficit), End of Year	$6,776,140	$6,587,649	$(1,440,483)	$(2,200,411)	$ 5,335,657	$ 4,387,238

Governmental Activities

The State's total governmental activities decreased net assets by $296 million before transfers of $484 million from business-type activities, primarily due to the increase in the environmental remediation reserves, as shown by the increase in the Environmental Protection expenses line.

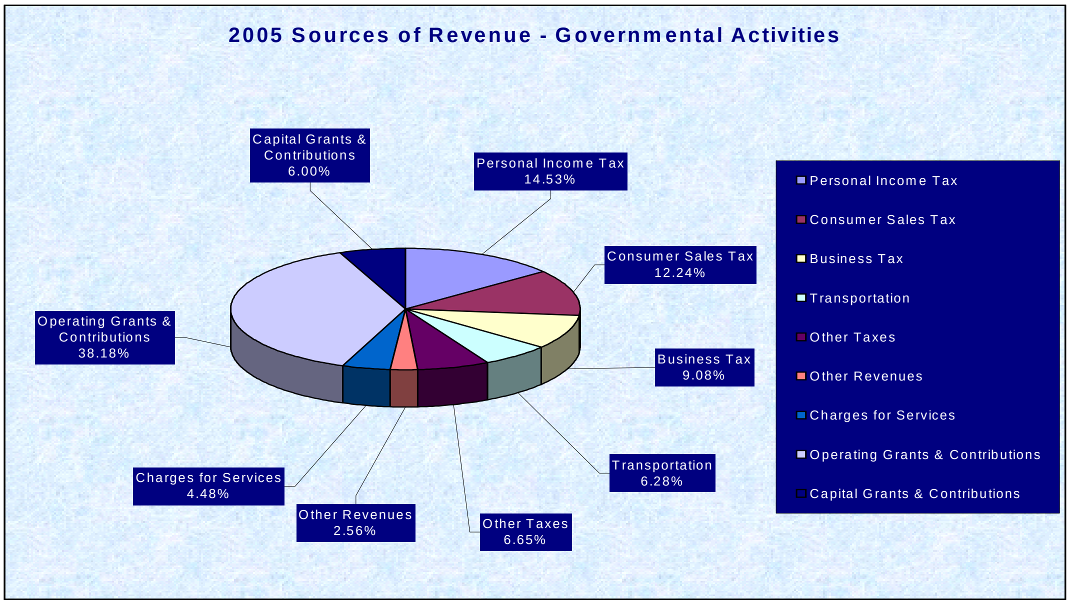
Operating grants and contributions are up $164 million over last year. Approximately $90 million relates to Military Affairs and Public Safety (MAPS) armory construction and Homeland Security. The increase is also partially due to an increase in the food stamp rate, which accounts for $24 million of the increase. Education grant income increased about $34 million due primarily to increases in special education, Reading First, and Title I grants.

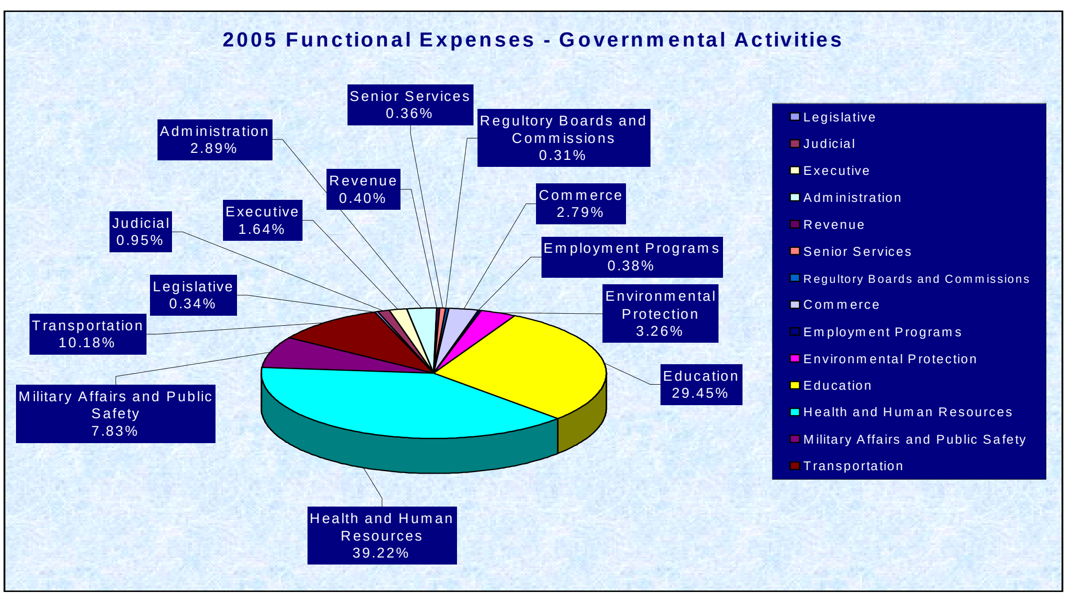
Personal income taxes increased by approximately $90 million due to the improving economy and job creation. Furthermore, the improving economy, with energy leading the way, increased the business taxes by approximately $172 million. Corporation Net Income/ Business Franchise tax collections grew by $99.3 million (55%) due to improving profits and the expiration of a temporary bonus depreciation provision in effect between September 11, 2001, and December 31, 2004. Prior to this turnaround, combined Corporation Net Income/Business Franchise Tax collections peaked at more than $263 million in FY 1999 before dropping to roughly $218 million in FY 2000 and to a bottom level of roughly $181 million in both FY 2003 and FY 2004. Collections rebounded to nearly $281 million in FY 2005. A 30% rise in average coal prices contributed to a $63.7 million gain in FY 2005 Severance Tax collections. Higher natural gas prices also contributed to positive revenue growth during the year.

The other revenues line increase is primarily due to increased investment earnings.

Program expenses were up in Health and Human Resources (DHHR) and MAPS. DHHR had increased Medicaid expenditures due to rising medical and prescription costs. Expenditures for MAPS increased $320 million partly due to the Armory Board building several new armories and repair was being done to existing facilities. New federal guidelines necessitated some armories being closed. The Office of Emergency Services expenditures were up for payments made related to the November 2003 floods and increased Homeland Security expenditures. The Division of Juvenile Services expenditures were up due to renovations to existing facilities and two new facilities were recently opened.

The following charts depict revenues and expenses, respectively, of the governmental activities for the fiscal year. Approximately 42% of the total revenues came from personal income, consumer sales, business taxes, and transportation taxes, while 44% was in the form of grants and contributions (see chart below). The State's governmental activities expenses include 39% for health and human resources and 29% for education (see chart below).





Business-type Activities

Business-type activities increased the State's net assets by $1,244 million before transfers of $484 million to governmental activities. Significant contributors to this change were:

- The West Virginia Lottery gaming receipts exceeded expenses by approximately $533 million, an increase of approximately $80 million. The Lottery's revenues are transferred out to other funds, with the exception of $250,000 operating funds.

- The Workers' Compensation Fund (WCF), the Board of Risk and Insurance Management (BRIM) and Public Employees' Insurance Agency had billed premiums in excess of incurred claims, in the amount of $594 million, $28 million, and $42 million, respectively. This net increase of operating revenue was the primary contributing factor to the increase of cash and cash equivalents and investments included in assets from the prior year. Insurance and Compensation Benefits liabilities were also reduced by $480 million at WCF and $34 million at BRIM in the current year.

- Employment Security recorded a net change before transfers of approximately $16 million. This improvement from the prior year net loss of $17 million was primarily due to cost control over expenses, which were $51 million less in 2005.

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 $2.4 billion, an increase of $327.5 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 2005. A rise in average coal prices and higher natural gas prices contributed to positive revenue growth during the year.

Governmental Fund Balances at June 30, 2005
(Expressed in Thousands)

	General Fund	Transportation	West Virginia Infrastructure and Jobs Development Council
Reserved	$486,474	$ 32,669	$324,339
Unreserved, Designated	—	—	147,690
Unreserved	403,294	198,342	56,834
Total	$889,768	$231,011	$528,863

Of the $327.5 million increase, $208.1 million related to the nonmajor funds, Special Revenue Funds increased by $27.9 million because of a reduction in the current portion of environmental liabilities, the Tobacco Settlement Medical Trust Fund which increased $47.4 million and the Capital Projects Funds which increased $115.5 million, primarily due to bond proceeds from issuing new debt. Approximately 32.5% 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 ($125 million); to fund capital projects ($276 million); to be held in permanent funds for education and tobacco-related health services ($235 million); or for a variety of other specific purposes ($849 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 $403 million, while total fund balance reached $889.8 million. 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 5.9% of total general expenditures, while total fund balance represents 12.9% of the same amount.

MAPS expenditures increased approximately $270 million over the prior year, primarily due to increased costs associated with constructing new armories, renovating armories/ juvenile correctional facilities, pension costs, providing flood relief, and Homeland Security programs. The Department of Commerce expenditures increased $62 million due to grant payments related to the Economic Development Project Fund.

Transportation had an unreserved fund balance of $198 million, up 13.8% from the prior year primarily due to cost containment measures. The reserved balance of $33 million is primarily for inventory. Transportation revenues were up $86.3 million and expenditures were up $82.1 million. Gas and Motor carrier tax revenue was up $45 million and federal revenue was up $44.6 million. Bond interest and premium expense approximately doubled and other operational expenditures were uniformly up approximately 8%.

The West Virginia Infrastructure and Jobs Development Council's total fund balance increased $27.5 million and the unreserved fund balance increased $4.8 million. These changes were due to an increase in dedicated mineral severance taxes, excess lottery appropriations, interest on loans, repayments of loans, and investment earnings. The reserved fund balance, $324 million, is money committed but not distributed to entities for loans/grants and loans receivable ($282.6 million) which are not available for appropriation. Revenues increased $3 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, and Employment Security, 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 $349 million. The slow implementation of surrounding states legislated lotteries contributed to the $139 million Lottery increase. Management is intentionally 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 $45.6 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 $93 million allowing an increase in the budget. The average prices of, and demand for, coal and natural gas are up and severance taxes increased $70 million.

A positive variance between the final budgeted revenues and actual results arose from larger than expected increases in personal income tax ($23.2 million), severance tax ($15.6 million), corporate income/business franchise ($14.2 million), and other taxes ($14.6 million) as described previously.

The increased revenues of the final amended budget allowed the expenditures to increase approximately $368 million. The Department of Revenue was allocated $22 million for a new computer system. Additionally, $225 million was allocated toward the unfunded liability of the Public Safety Death, Disability, and Retirement Fund. The Executive function is one source of payment for costs associated with unanticipated disasters and State emergencies and received an additional $50 million during the fiscal year.

The positive variance of the excess of revenues over expenditures was approximately $232 million from increased revenues and cautious spending. The Executive, Education, Military Affairs and Public Safety, and Revenue functions each had a positive expenditure variance of approximately $20 million. After expenditures from prior year appropriations, the excess was $90 million, allowing a $45 million deposit into the State's Rainy Day Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the State had invested $7.2 billion, net of accumulated depreciation, in a broad range of capital assets shown below. Depreciation expenses for the year totaled $284.6 million.

Capital Assets at Year-End
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land and Improvements	$ 869,877	$ 821,782	$ 611	$ 611	$ 870,488	$ 822,393
Building and Improvements	384,456	373,089	1,501	1,324	385,957	374,413
Equipment	78,518	74,560	7,249	7,437	85,767	81,997
Library Holdings	657	1,136	—	—	657	1,136
Construction in Progress	1,027,316	950,722	—	—	1,027,316	950,722
Infrastructure	4,849,977	4,802,266	—	—	4,849,977	4,802,266
Totals	$7,210,801	$7,023,555	$9,361	$9,372	$7,220,162	$7,032,927

The total increase, net of disposals and accumulated depreciation, in the State's investment in capital assets for the current fiscal year approximated $187.2 million. The most significant increases in capital assets during the year were $76.6 million of construction in progress and $48.0 million in land. These increases are related to the purchase of land and building of highway infrastructure and armories. 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 $7.0 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		Business-type Activities		Total Primary Government	
	2005	Restated 2004	2005	2004	2005	Restated 2004
General Obligation Bonds	$ 798,490	$ 795,393	$ —	$ —	$ 798,490	$ 795,393
Revenue Bonds	763,761	670,789	—	—	763,761	670,789
Capital Leases	354,337	300,227	—	—	354,337	300,227
Accrued and Other Liabilities	491,555	301,973	111,524	112,122	603,079	414,095
Insurance and Compensation Benefits	—	—	3,902,210	4,383,452	3,902,210	4,383,452
Compensated Absences	276,099	274,406	8,623	7,983	284,722	282,389
Pension Obligation	276,175	279,958	—	—	276,175	279,958
Totals	$2,960,417	$2,622,746	$4,022,357	$4,503,557	$6,982,774	$7,126,303

West Virginia Infrastructure and Jobs Development Council restated its beginning Net Asset balance due to an understatement of the beginning balance of capital appreciation bonds outstanding. Although no debt service was scheduled to begin until FY 2006, because the investment return on the initial principal amount is being reinvested at a stated compounded rate until maturity, interest should have been accrued on the capital appreciation bonds and reflected as an increase to the outstanding general obligation bonds on the Statement of Net Assets.

The School Building Authority issued new revenue bonds in FY 2005. The $146.7 million Capital Improvement Revenue Bonds were issued to provide funding for school construction and renovation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2006 budget was developed anticipating a potential shortfall of revenue so agencies were asked to reduce their general revenue budgets by 5.5%. As the fiscal year progressed, the economy proved somewhat better than originally projected because of an increase in severance tax, personal income tax, and corporate net income/franchise collections. The revenue estimate for FY 2006 is now anticipated to be $168 million over the FY 2005 revenue estimate.

The increase in base revenues of $168 million plus $22 million of proposed revenue additions, along with the 5.5% budget reduction and the reduction of "one-time" appropriations and various other miscellaneous reductions totaling $64 million will provide $255 million available to address priority budget areas.

From the funds available for FY 2006, the major new recommendations included in the Governor's Executive Budget are as follows:

- Funding for public employees and public education health insurance
- Funding for state agency increases to the Board of Risk and Insurance Management
- Funding for Medicaid and Social Service programs
- Funding for higher education scholarships
- Funding for statutory salary increases in public education
- Funding for increased operational and educational expenses at new or expanded correctional and juvenile facilities

In addition to the 5.5% budget reductions to General Revenue and Lottery Funds mentioned above, in preparing the FY 2006 budget recommendations, the spending authority (budget) of most Special Revenue administrative accounts were also reduced by the same 5.5% amount. This was done in order to treat most operational accounts in the same manner and to some degree, lessen the disparity between General/Lottery and Special Revenue agencies. The expected lottery decreases have not come to fruition. At this time, only Pennsylvania has passed legislation authorizing gaming that will have an adverse affect on West Virginia lottery revenues. For this reason, Governor Manchin has included, for the first time in the FY 2007 budget, a five-year plan showing the projected revenues and expenditures from FY 2006 through FY 2011.

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.


STATE OF WEST VIRGINIA.
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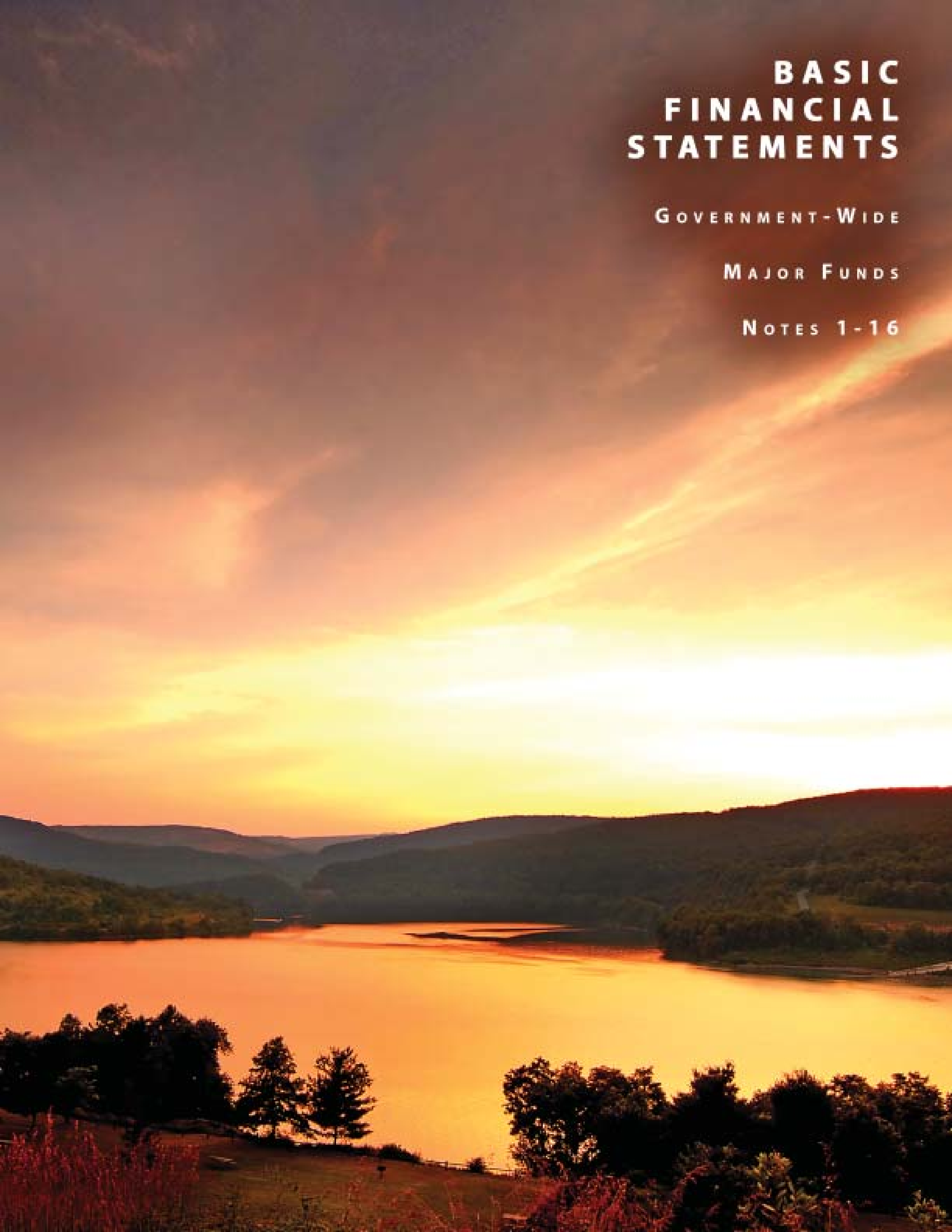
BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE

MAJOR FUNDS

NOTES 1-16



Statement of Net Assets
June 30, 2005
(Expressed in Thousands)

	Primary Government			
Assets:	Governmental Activities	Business-type Activities	Total	Component Units
Current Assets:				
Cash and Cash Equivalents	$ 1,566,510	$1,998,890	$ 3,565,400	$ 493,977
Investments	514,503	—	514,503	11,040
Receivables, Net	847,744	319,681	1,167,425	116,284
Due from Other Governments	248,148	1,325	249,473	—
Due from Primary Government	—	—	—	17,000
Due from Component Units	1,296	1,277	2,573	—
Internal Balances	28,563	(28,563)	—	—
Inventories	43,791	493	44,284	7,792
Other Assets	17,798	875	18,673	12,713
Restricted Assets:				
Cash and Cash Equivalents	2,167	6,419	8,586	100,196
Investments	—	758	758	20,358
Other Restricted Assets	—	—	—	107
Total Current Assets	3,270,520	2,301,155	5,571,675	779,467
Noncurrent Assets:				
Investments	—	170,729	170,729	446,622
Receivables, Net	30,371	373,864	404,235	227,033
Other Assets	6,136	—	6,136	22,247
Advance to Component Units	125,945	—	125,945	—
Net Pension Asset	2,257	—	2,257	—
Restricted Assets:				
Cash and Cash Equivalents	25,314	—	25,314	71,904
Investments	—	21,324	21,324	144,325
Receivables, Net	—	372	372	1,021,597
Other Restricted Assets	—	41,875	41,875	6,015
Land and Other Capital Assets Not Being Depreciated	1,889,896	611	1,890,507	319,360
Capital Assets, Being Depreciated (Net of Accumulated Depreciation)	5,320,905	8,750	5,329,655	1,753,319
Total Noncurrent Assets	7,400,824	617,525	8,018,349	4,012,422
Total Assets	10,671,344	2,918,680	13,590,024	4,791,889
Liabilities:				
Current Liabilities:				
Accounts Payable	224,549	282,084	506,633	47,476
Interest Payable	4,941	—	4,941	26,355
Accrued Tuition Contract Benefits	—	6,855	6,855	—
Accrued and Other Liabilities	427,257	35,018	462,275	107,141
Due to Other Governments	125,591	3,905	129,496	—
Due to Primary Government	—	—	—	2,573
Due to Fiduciary Funds	1,062	—	1,062	—
Due to Component Units	15,211	1,789	17,000	—
Unearned Revenue	157,705	14,010	171,715	55,602
Insurance and Compensation Benefits Obligations	—	557,303	557,303	—
Liabilities Payable from Restricted Assets	—	900	900	—
General Obligation Debt	28,380	—	28,380	—
Revenue Bonds Payable	34,497	—	34,497	102,819
Capital Leases	16,419	—	16,419	7,114
Compensated Absences	64,674	2,493	67,167	32,449
Total Current Liabilities	1,100,286	904,357	2,004,643	381,529

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	99,133	99,133	—
Accrued and Other Liabilities	470,026	—	470,026	2,344
Unearned Revenue	—	—	—	4,341
Insurance and Compensation Benefits Obligations	—	3,344,907	3,344,907	—
Advances from Primary Government	—	—	—	125,945
Liabilities Payable from Restricted Assets	—	4,636	4,636	52,357
General Obligation Debt	770,110	—	770,110	—
Revenue Bonds Payable	729,264	—	729,264	1,780,092
Capital Leases	337,918	—	337,918	53,641
Net Pension Obligation	276,175	—	276,175	—
Compensated Absences	211,425	6,130	217,555	72,889
Total Noncurrent Liabilities	2,794,918	3,454,806	6,249,724	2,091,609
Total Liabilities	3,895,204	4,359,163	8,254,367	2,473,138
Net Assets:				
Invested in Capital Assets, Net of Related Debt	6,330,408	9,361	6,339,769	1,348,167
Restricted for:				
Capital Projects	308,357	—	308,357	41,334
Debt Service	119,969	—	119,969	7,775
Program Administration	8,189	149	8,338	—
Permanent Funds:				
Nonexpendable	186,177	—	186,177	94,157
Expendable	49,033	—	49,033	—
Lending Activities	—	426,996	426,996	283,980
Insurance Activities	—	347,995	347,995	—
Revenue Shortfall Reserve	79,302	—	79,302	—
Income Tax Reserve Fund	32,619	—	32,619	—
Economic Development and Tourism	26,409	—	26,409	—
Education	10,215	—	10,215	—
Wildlife Management and Conservation	13,574	—	13,574	—
Specific Fund/Component Unit Purposes	429,145	—	429,145	126,055
Unrestricted (Deficit)	(817,257)	(2,224,984)	(3,042,241)	417,283
Total Net Assets (Deficit)	$6,776,140	$(1,440,483)	$ 5,335,657	$2,318,751

Statement of Activities
Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
Legislative	$ 27,558	$ 1,859	$ 646	$ —
Judicial	77,668	901	—	—
Executive	134,506	1,223	45,805	—
Administration	237,513	12,390	52,316	—
Commerce	229,216	42,115	76,340	—
Environmental Protection	267,544	55,254	88,395	—
Employment Programs	31,445	—	30,805	—
Education	2,418,672	4,133	358,853	217
Health and Human Resources	3,221,458	82,325	2,285,865	—
Military Affairs and Public Safety	644,737	8,884	95,874	26,255
Revenue	32,718	26,303	200	—
Transportation	835,813	99,532	—	453,719
Senior Services	29,373	—	12,634	—
Regulatory Boards and Commissions	25,671	23,017	8,306	—
Interest on Long-Term Debt	85,402	—	—	—
Total Governmental Activities	8,299,294	357,936	3,056,039	480,191
Business-type Activities:				
West Virginia Lottery	839,241	1,399,073	—	—
Water Pollution Control Revolving Fund	1,786	2,953	—	—
Workers' Compensation Fund	189,753	718,382	—	—
Employment Security	143,989	144,030	—	—
Public Employees' Insurance Agency	506,837	525,130	—	—
Board of Risk and Insurance Management	60,969	85,123	—	—
Other Activities	58,910	67,553	—	—
Total Business-type Activities	1,801,485	2,942,244	—	—
Total Primary Government	$10,100,779	$3,300,180	$3,056,039	$480,191
Component Units:				
Economic Development Authority	$ 14,460	$ 5,756	$ —	$ —
Housing Development Authority	103,322	59,036	50,590	—
Parkways, Economic Development, and Tourism Authority	75,277	64,910	—	—
Water Development Authority	12,751	14,304	—	—
Higher Education	1,172,638	452,709	307,511	49,049
Regional Jail Authority	67,332	73,537	—	—
Other Component Units	57,233	31,160	1,567	—
Total Component Units	$ 1,503,013	$ 701,412	$ 359,668	$ 49,049

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 Adjusted

Net Assets (Deficit), End of Year

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

Governmental Activities	Business-type Activities	Total	Component Units
	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
$ (25,053)		$ (25,053)	
(76,767)		(76,767)	
(87,478)		(87,478)	
(172,807)		(172,807)	
(110,761)		(110,761)	
(123,895)		(123,895)	
(640)		(640)	
(2,055,469)		(2,055,469)	
(853,268)		(853,268)	
(513,724)		(513,724)	
(6,215)		(6,215)	
(282,562)		(282,562)	
(16,739)		(16,739)	
5,652		5,652	
(85,402)		(85,402)	
(4,405,128)		(4,405,128)	
—	$ 559,832	559,832	
—	1,167	1,167	
—	528,629	528,629	
—	41	41	
—	18,293	18,293	
—	24,154	24,154	
—	8,643	8,643	
—	1,140,759	1,140,759	
(4,405,128)	1,140,759	(3,264,369)	
—	—	—	$ (8,704)
—	—	—	6,304
—	—	—	(10,367)
—	—	—	1,553
—	—	—	(363,369)
—	—	—	6,205
—	—	—	(24,506)
—	—	—	(392,884)
1,163,211	—	1,163,211	—
979,357	—	979,357	—
726,878	—	726,878	—
154,070	—	154,070	—
502,659	—	502,659	—
377,878	—	377,878	—
912	—	912	—
54,240	104,011	158,251	47,183
56,825	—	56,825	—
—	—	—	428,335
93,281	(534)	92,747	61,111
484,308	(484,308)	—	—
4,593,619	(380,831)	4,212,788	536,629
188,491	759,928	948,419	143,745
6,587,649	(2,200,411)	4,387,238	2,175,006
$ 6,776,140	$(1,440,483)	$5,335,657	$2,318,751

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 164.

Balance Sheet
Governmental Funds
June 30, 2005
(Expressed in Thousands)

	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental Funds	Total
Assets:					
Cash and Cash Equivalents	$ 695,688	$168,212	$209,496	$469,129	$1,542,525
Investments	163,054	—	36,061	315,388	514,503
Receivables, Net	442,850	123,140	283,436	14,969	864,395
Due from Other Governments	246,913	—	—	1,235	248,148
Due from Other Funds	31,289	3,650	—	22,237	57,176
Due from Component Units	740	7	—	—	747
Advances to Component Units	125,945	—	—	—	125,945
Inventories	10,583	32,669	—	77	43,329
Other Assets	15,018	2,649	—	15	17,682
Restricted Assets:					
Cash and Cash Equivalents	—	—	—	1,851	1,851
Total Assets	$1,732,080	$330,327	$528,993	$824,901	$3,416,301
Liabilities:					
Accounts Payable	$ 119,811	$ 73,096	$ 39	$ 15,952	$ 208,898
Accrued and Other Liabilities	355,945	16,970	—	32,606	405,521
Deferred Revenue	200,296	513	—	4,646	205,455
Due to Other Governments	118,879	3,410	—	3,236	125,525
Due to Other Funds	32,716	5,297	—	787	38,800
Due to Component Units	14,665	30	91	—	14,786
Total Liabilities	842,312	99,316	130	57,227	998,985
Fund Balances:					
Reserved for:					
Inventories	10,583	32,669	—	77	43,329
Program Administration	1,748	—	—	6,441	8,189
Specific Fund Purposes	233,700	—	—	—	233,700
Revenue Shortfall Reserve	79,302	—	—	—	79,302
Income Tax Reserve Fund	32,619	—	—	—	32,619
Lending Activities	—	—	324,339	—	324,339
Permanent Funds	—	—	—	235,210	235,210
Loans Receivable	128,522	—	—	—	128,522
Unreserved:					
Designated for:					
Loans and Grants	—	—	147,690	—	147,690
Capital Projects	—	—	—	276,443	276,443
Debt Service	—	—	—	124,910	124,910
Unreserved:					
Special Revenue Funds	—	198,342	56,834	124,593	379,769
Undesignated	403,294	—	—	—	403,294
Total Fund Balance	889,768	231,011	528,863	767,674	2,417,316
Total Liabilities and Fund Balances	$1,732,080	$330,327	$528,993	$824,901	$3,416,301

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, 2005
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 2,417,316
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	$ 851,365	
Construction in Progress	1,025,412	
Infrastructure Assets	7,942,357	
Buildings, Equipment and Other Depreciable Assets	869,562	
Accumulated Depreciation	(3,534,863)	
Total Capital Assets		7,153,833
Certain tax and other revenues are earned but not available and therefore are deferred in the funds.		57,641
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.		89,892
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.		6,136
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	(798,490)	
Revenue Bonds	(763,761)	
Capital Leases	(343,779)	
Compensated Absences	(272,234)	
Net Pension Obligations	(273,918)	
Accrued Interest Payable and Other Liabilities	(496,496)	
Total Long-Term Liabilities		(2,948,678)
Net Assets of Governmental Activities		$ 6,776,140

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, 2005
(Expressed in Thousands)

	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental Funds	Total
Revenues:					
Taxes:					
Personal Income	$1,170,202	$ —	$ —	$ —	$1,170,202
Consumer Sales	978,115	—	—	—	978,115
Severance	287,774	—	—	—	287,774
Corporate Net Income	255,772	—	—	—	255,772
Business and Occupation	182,090	—	—	—	182,090
Medicaid	154,070	—	—	—	154,070
Gasoline and Motor Carrier	—	320,891	—	—	320,891
Automobile Privilege	—	3,005	—	—	3,005
Wholesale Motor Fuel	—	178,763	—	—	178,763
Other	367,667	—	—	4,000	371,667
Intergovernmental	2,661,087	453,719	—	120,393	3,235,199
Licenses, Permits, and Fees	92,278	4,554	—	76,349	173,181
Motor Vehicle Registration	—	93,144	—	—	93,144
Charges for Services	118,287	—	1,711	761	120,759
Food Stamp Revenue	252,097	—	—	—	252,097
Investment Earnings	36,235	1,906	5,622	35,771	79,534
Other	97,113	26,257	—	33,410	156,780
Total Revenues	6,652,787	1,082,239	7,333	270,684	8,013,043
Expenditures:					
Current:					
Legislature	25,270	—	—	2,324	27,594
Judicial	84,283	—	—	—	84,283
Executive	122,285	—	—	130	122,415
Administration	150,324	—	—	9	150,333
Commerce	211,359	—	12,788	—	224,147
Environmental Protection	9,876	—	—	88,700	98,576
Employment Programs	—	—	—	36,609	36,609
Education	2,351,909	—	—	71,185	2,423,094
Health and Human Resources	3,237,580	—	—	—	3,237,580
Military Affairs and Public Safety	605,601	—	—	3,614	609,215
Revenue	60,013	—	—	617	60,630
Transportation	17,361	555,823	—	—	573,184
Senior Services	29,455	—	—	—	29,455
Regulatory Boards and Commissions	5,184	—	—	22,377	27,561
Capital Outlay	—	459,263	—	30,932	490,195
Debt Service:					
Principal	—	28,060	—	67,340	95,400
Interest	—	17,335	—	63,442	80,777
Total Expenditures	6,910,500	1,060,481	12,788	387,279	8,371,048
Excess of Revenues Over (Under) Expenditures	(257,713)	21,758	(5,455)	(116,595)	(358,005)
Other Financing Sources (Uses):					
Face Value of Long-Term Debt Issued	—	321,405	—	141,600	463,005
Premium on Bonds Isued	—	—	—	5,146	5,146
Capital Lease Acquisition	6,392	—	—	61,850	68,242
Payments to Refunded Bond Escrow agent	—	(321,405)	—	—	(321,405)
Transfers In	461,534	4,150	42,838	159,319	667,841
Transfers Out	(144,278)	—	(9,908)	(43,171)	(197,357)
Total Other Financing Sources (Uses)	323,648	4,150	32,930	324,744	685,472
Net Change in Fund Balance	65,935	25,908	27,475	208,149	327,467
Fund Balances, Beginning of Year	823,833	205,103	501,388	559,525	2,089,849
Fund Balances, End of Year	$ 889,768	$ 231,011	$528,863	$ 767,674	$2,417,316

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

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, 2005
(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 327,467
Amounts reported for governmental activities in the statement of activities are different because:		
Restatement of beginning fund balance due to the capital appreciation bonds reported by West Virginia Infrastructure Council		(20,733)
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	$ 442,462	
Depreciation Expense	(255,909)	
Excess of Capital Outlay Over Depreciation Expense		186,553
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.		(68,242)
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 $5,146		
Total Bond Proceeds		(502,893)
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	405,750	
Capital Lease Payments	12,065	
Total Long-Term Debt Repayment		417,815
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.		11,503
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		2,726
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	(3,338)	
Compensated Absences	(1,620)	
Accrued and Other Liabilities	(189,254)	
Net Pension Obligation	4,058	
Amortization of Bond Premiums and Issuance Costs	24,449	
Total Additional Expenditures		(165,705)
Change in Net Assets of Governmental Activities		$188,491

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 The Fund is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment. The Fund, the only entity in the State extending this type of service, is required by statute to provide insurance to all employers in the State. The Fund has discretionary power to alter its premium structure.

Employment Security The Fund is administered by the West Virginia Employment Security Commission. The Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers.

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 184.

Statement of Net Assets
Proprietary Funds
June 30, 2005
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
Assets:	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Funds	Employment Security
Current Assets:				
Cash and Cash Equivalents	$113,742	$ 72,418	$ 1,286,127	$233,211
Receivables, Net	26,926	17,843	214,209	37,330
Due from Other Governments	—	85	—	1,231
Due from Other Funds	19	61	4,447	311
Due from Component Units	—	—	867	98
Inventories	471	—	—	—
Other Assets	849	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	758	—	—	—
Total Current Assets	142,765	90,407	1,505,650	272,181
Noncurrent Assets:				
Investments	—	—	—	—
Receivables, Net	—	339,309	—	—
Restricted Assets:				
Cash and Cash Equivalents	—	—	—	—
Investments	907	—	—	—
Receivables, Net	—	—	—	—
Other Restricted Assets	—	—	—	—
Capital Assets, Net	2,024	—	5,233	—
Total Noncurrent Assets	2,931	339,309	5,233	—
Total Assets	145,696	429,716	1,510,883	272,181
Liabilities:				
Current Liabilities:				
Accounts Payable	82,086	14	191,715	—
Accrued Tuition Contract Benefits	—	—	—	—
Accrued and Other Liabilities	31,871	—	—	1,673
Deferred Revenue	—	—	—	—
Due to Other Governments	—	—	—	3,905
Due to Other Funds	29,100	57	6,806	180
Due to Component Units	102	17	1,669	—
Insurance and Compensation Obligations	—	—	426,100	15,442
Liabilities Payable from Restricted Assets	900	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	—	—	2,470	—
Total Current Liabilities	144,059	88	628,760	21,200
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	—	—	—
Insurance and Compensation Obligations	—	—	3,210,200	—
Liabilities Payable from Restricted Assets	693	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	694	329	3,324	—
Total Noncurrent Liabilities	1,387	329	3,213,524	—
Total Liabilities	145,446	417	3,842,284	21,200
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,024	—	5,233	—
Restricted for Capital Projects	—	—	—	—
Restricted for Program Administration	—	—	—	—
Restricted for Lending Activities	—	387,003	—	—
Restricted for Insurance Activities	—	—	76,484	250,981
Unrestricted (Deficit)	(1,774)	42,296	(2,413,118)	—
Total Net Assets (Deficit)	$ 250	$429,299	$(2,331,401)	$250,981

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
$223,283	$ 48,958	$ 21,151	$ 1,998,890	$ 23,985
19,549	111	3,713	319,681	3,829
9	—	—	1,325	—
3,267	108	25	8,238	9,361
312	—	—	1,277	549
—	—	22	493	462
—	—	26	875	116
—	6,419	—	6,419	316
—	—	—	758	—
246,420	55,596	24,937	2,337,956	38,618
—	81,423	89,306	170,729	—
—	—	34,555	373,864	—
—	—	—	—	25,314
—	20,417	—	21,324	—
—	372	—	372	—
—	41,875	—	41,875	—
155	—	1,949	9,361	56,968
155	144,087	125,810	617,525	82,282
246,575	199,683	150,747	2,955,481	120,900
4,000	2,065	2,204	282,084	15,651
—	—	6,855	6,855	—
586	849	39	35,018	207
3,019	10,991	—	14,010	—
—	—	—	3,905	66
586	15	57	36,801	236
1	—	—	1,789	425
65,399	50,362	—	557,303	—
—	—	—	900	—
—	—	—	—	4,320
—	—	23	2,493	—
73,591	64,282	9,178	941,158	20,905
—	—	99,133	99,133	—
—	134,707	—	3,344,907	—
3,943	—	—	4,636	—
—	—	—	—	6,238
458	167	1,158	6,130	3,865
4,401	134,874	100,291	3,454,806	10,103
77,992	199,156	109,469	4,395,964	31,008
155	—	1,949	9,361	46,410
—	—	—	—	31,914
—	—	149	149	—
—	—	39,993	426,996	—
—	20,530	—	347,995	—
168,428	(20,003)	(813)	(2,224,984)	11,568
$168,583	$ 527	$ 41,278	$(1,440,483)	$ 89,892

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Funds	Employment Security
Operating Revenues:				
Charges for Services and Sales	$ —	$ —	$ —	$143,934
Lottery Games	1,399,074	—	—	—
Insurance Premiums	—	—	710,501	—
Tuition Contracts	—	—	—	—
Investment Earnings	—	1,743	—	—
Licenses, Permits, and Fees	—	1,210	—	—
Other	16,368	—	25,495	5,380
Total Operating Revenues	1,415,442	2,953	735,996	149,314
Operating Expenses:				
Cost of Sales and Services	685,765	—	—	—
Lottery Prizes	117,126	—	—	—
Insurance Claims	—	—	116,616	—
Tuition Contract Benefits and Expenses	—	—	—	—
General and Administration	12,600	1,786	73,130	—
Depreciation and Amortization	1,930	—	657	—
Other	12,691	—	—	143,965
Total Operating Expenses	830,112	1,786	190,403	143,965
Operating Income (Loss)	585,330	1,167	545,593	5,349
Nonoperating Revenues (Expenses):				
Entitlements and Grants	—	—	—	—
Gain on Sale of Equipment	—	—	—	—
Interest and Other Investment Income	2,107	1,344	74,075	11,355
Interest Expense	(184)	—	—	—
Other Nonoperating Revenues	—	—	—	—
Other Nonoperating Expenses	(54,391)	—	—	—
Total Nonoperating Revenues (Expenses)	(52,468)	1,344	74,075	11,355
Income (Loss) Before Contributions and Transfers	532,862	2,511	619,668	16,704
Contributions and Transfers:				
Transfers In	—	39,785	14,000	—
Transfers Out	(532,862)	—	—	(660)
Total Contributions and Transfers	(532,862)	39,785	14,000	(660)
Change in Net Assets	—	42,296	633,668	16,044
Net Assets (Deficit), Beginning of Year	250	387,003	(2,965,069)	234,937
Net Assets (Deficit), End of Year	$ 250	$429,299	$(2,331,401)	$250,981

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
$ —	$ —	$ 63,747	$ 207,681	$68,114
—	—	—	1,399,074	—
525,140	85,118	—	1,320,759	—
—	—	632	632	—
—	—	—	1,743	—
—	—	3,173	4,383	—
6,012	—	602	53,857	—
531,152	85,118	68,154	2,988,129	68,114
—	—	49,044	734,809	61,318
—	—	—	117,126	—
483,206	56,675	—	656,497	—
—	—	4,296	4,296	—
16,117	4,294	5,845	113,772	5,178
34	—	123	2,744	6,601
7,429	—	—	164,085	—
506,786	60,969	59,308	1,793,329	73,097
24,366	24,149	8,846	1,194,800	(4,983)
—	—	—	—	912
—	—	—	—	11
4,472	1,764	8,894	104,011	326
—	—	—	(184)	(458)
—	—	—	—	1,871
—	—	—	(54,391)	—
4,472	1,764	8,894	49,436	2,662
28,838	25,913	17,740	1,244,236	(2,321)
—	2,000	4,462	60,247	15,226
—	—	(11,033)	(544,555)	(1,402)
—	2,000	(6,571)	(484,308)	13,824
28,838	27,913	11,169	759,928	11,503
139,745	(27,386)	30,109	(2,200,411)	78,389
$168,583	$ 527	$ 41,278	$(1,440,483)	$89,892

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Funds	Employment Security
Cash Flows From Operating Activities:				
Receipts from Customers	$1,404,583	$ 18,818	$ 747,486	$139,457
Payment to Suppliers	(14,492)	—	(29,999)	—
Payments to Employees	(5,358)	(1,263)	(40,125)	—
Payment to Beneficiaries	—	—	—	—
Payments for Loans Originated	—	(60,672)	—	—
Payments to Claimants	—	—	(565,079)	(147,384)
Other Operating Cash Receipts	—	—	—	11,520
Other Operating Cash Payments	(802,387)	(579)	—	—
Net Cash Provided by (Used for) Operating Activities	582,346	(43,696)	112,283	3,593
Cash Flows from Noncapital Financing Activities:				
Repayment of Operating Debt	(184)	—	—	—
Transfers In	—	—	14,000	—
Transfers Out	(576,897)	—	—	(660)
Distributions or Subsidies to Other Organizations	(5,993)	—	—	—
Entitlements and Grants	—	41,886	—	—
Net Cash Provided by (Used for) Noncapital Financing Activities	(583,074)	41,886	14,000	(660)
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	(9,050)	—	(2,324)	—
Proceeds from Sale of Capital Assets	—	—	—	—
Net Cash Used for Capital and Related Financing Activities	(9,050)	—	(2,324)	—
Cash Flows from Investing Activities:				
Purchase of Investments	—	—	—	—
Proceeds from Sale of Investments	1,426	—	—	—
Investment Earnings	2,059	1,344	74,075	11,355
Net Cash Provided by (Used for) Investing Activities	3,485	1,344	74,075	11,355
Net Increase (Decrease) in Cash and Cash Equivalents	(6,293)	(466)	198,034	14,288
Cash and Cash Equivalents, Beginning of Year	120,035	72,884	1,088,093	218,923
Cash and Cash Equivalents, End of Year	$ 113,742	$ 72,418	$1,286,127	$233,211

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
$ 530,537	$ 86,758	$ 71,738	$2,999,377	$ 78,382
(21,648)	(2,642)	(51,016)	(119,797)	(52,105)
(2,093)	(1,260)	(3,651)	(53,750)	(19,477)
(492,796)	(58,251)	(3,649)	(554,696)	—
—	—	(3,677)	(64,349)	—
—	—	—	(712,463)	—
13,299	4,638	492	29,949	—
—	—	(16)	(802,982)	—
27,299	29,243	10,221	721,289	6,800
—	—	—	(184)	—
—	2,000	4,449	20,449	16,950
—	—	(11,033)	(588,590)	(1,402)
—	(47,007)	—	(53,000)	—
—	—	—	41,886	912
—	(45,007)	(6,584)	(579,439)	16,460
—	—	—	—	2,579
—	—	—	—	(5,245)
—	—	—	—	(462)
(99)	—	(14)	(11,487)	(7,252)
—	—	—	—	73
(99)	—	(14)	(11,487)	(10,307)
—	(212,714)	(799)	(213,513)	(350)
—	200,355	1,220	203,001	350
4,472	2,511	1,005	96,821	320
4,472	(9,848)	1,426	86,309	320
31,672	(25,612)	5,049	216,672	13,273
191,611	80,989	16,102	1,788,637	36,342
$ 223,283	$ 55,377	$ 21,151	$2,005,309	$ 49,615

(Continued)

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)
(Continued)

	Business-type Activities - Enterprise Funds			
	West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Funds	Employment Security
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	$585,330	$ 1,167	$ 545,593	$ 5,349
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	1,930	—	657	—
Changes in Assets and Liabilities:				
Receivables	(10,859)	(44,845)	971	(16)
Inventories	367	—	—	—
Other Assets	(86)	—	—	—
Accounts Payable and Accrued Liabilities	5,695	(53)	11,988	(2,870)
Tuition Contract Benefits and Expenses	—	—	—	—
Deferred Revenues	—	—	—	—
Escrow Deposits	—	—	—	—
Due to/from Other Funds	—	35	—	1,130
Unpaid Claims Liabilities	—	—	—	—
Other Liabilities	(31)	—	(446,926)	—
Compensated Absences	—	—	—	—
Net Cash Provided by (Used for) Operating Activities	$582,346	$(43,696)	$ 112,283	$ 3,593
Schedule of Noncash Capital and Financing Activities:				
Unrealized Gain on Investments	$ —	$ —	$ —	$ —

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
$24,366	$24,149	$ 8,846	$ 1,194,800	$ (4,983)
34	—	123	2,744	6,601
(370)	401	407	(54,311)	(6,872)
—	—	(17)	350	75
—	—	(3)	(89)	77
3,504	—	236	18,500	11,863
—	—	647	647	—
—	1,384	—	1,384	—
—	4,638	—	4,638	—
(227)	—	—	938	—
—	(1,576)	—	(1,576)	—
(8)	247	(15)	(446,733)	39
—	—	(3)	(3)	—
$27,299	$29,243	$10,221	$ 721,289	$ 6,800
$ —	$ —	$ 7,885	$ 7,885	$ —

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- 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 189.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:				
Cash and Cash Equivalents	$ 6,015	$ —	$ —	$33,484
Equity in Pooled Cash Equivalents	—	189,336	—	19,137
Investments:				
Equity Pooled Investments	5,528,100	—	—	—
Mutual Funds	629,889	—	552,930	—
Receivables, Net:				
Contributions Receivable	30,825	—	4,038	—
Participant Loans Receivable	12,793	—	—	—
Other Receivables	—	—	—	8,334
Accrued Interest Receivable	—	—	—	47
Due from Other Funds	1,062	—	—	—
Other Assets	189	—	—	—
Total Assets	6,208,873	189,336	556,968	$61,002
Liabilities:				
Accounts Payable	—	—	3,330	$ 60
Accrued and Other Liabilities	782	—	464	834
Due to Other Governments	—	—	—	8,461
Agency Liabilities	—	—	—	51,647
Total Liabilities	782	—	3,794	$61,002
Net Assets:				
Held in Trust For:				
Pension Benefits, External Investment Pool Participants, Individuals, and Organizations	6,208,091	189,336	553,174	
Total Net Assets	$6,208,091	$189,336	$553,174	

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

Statement of Changes in Fiduciary Net Assets
Pension, Investment Trust, and Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Private Purpose Trust Fund
Additions:			
Contributions:			
Members	$134,589	$ —	$ —
Employer	767,564	—	—
Account Holder Contributions	—	—	174,829
Deposits, Pool Participants	—	605,335	—
Total Contributions	902,153	605,335	174,829
Investment Income:			
Net Appreciation in Fair Value of Investments	570,458	4,184	27,620
Interest	1,411	—	7,482
Investment Expense	(25,654)	—	(2,543)
Net Investment Income	546,215	4,184	32,559
Other	15,468	—	—
Total Additions	1,463,836	609,519	207,388
Deductions:			
Benefits Expense	556,577	—	—
Payments in Accordance with Trust Agreements	—	—	20,909
Refunds of Contributions	22,719	—	—
Withdrawals	—	612,416	—
Administrative Expenses	5,532	—	1,459
Total Deductions	584,828	612,416	22,368
Change in Net Assets Held in Trust for:			
Pension Benefits	879,008	—	—
External Investment Pool Participants	—	(2,897)	—
Individuals and Organizations	—	—	185,020
Net Assets, Beginning of Year	5,329,083	192,233	368,154
Net Assets, End of Year	$6,208,091	$189,336	$553,174

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


STATE OF WEST VIRGINIA.
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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 for those areas within 75 miles. The Authority is empowered to issue 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 199.

Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2005
(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	$ 35,848	$ 19,578	$ 523	$ 6,772
Investments	1,835	—	—	—
Receivables, Net	21,108	5,435	1,573	9,301
Due from Primary Government	—	—	—	108
Inventories	—	—	2,148	—
Other Assets	36	3,543	2,517	—
Restricted Assets:				
Cash and Cash Equivalents	—	93,607	—	—
Investments	—	—	20,358	—
Other Restricted Assets	—	—	—	—
Total Current Assets	58,827	122,163	27,119	16,181
Noncurrent Assets:				
Investments	—	7,481	—	1,200
Receivables, Net	141,596	29,066	—	9,344
Other Assets	—	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	11,859	52,109	3,040	4,588
Investments	—	113,158	15,460	15,707
Receivables, Net	—	781,364	—	240,233
Other Restricted Assets	—	5,125	—	—
Capital Assets, Net	41,955	220	546,919	797
Total Noncurrent Assets	195,410	988,523	565,419	271,869
Total Assets	254,237	1,110,686	592,538	288,050
Liabilities:				
Current Liabilities:				
Accounts Payable	7	—	388	10
Interest Payable	—	5,821	801	2,708
Accrued and Other Liabilities	302	20,638	6,511	—
Deferred Revenue	—	—	—	—
Due to Primary Government	7	—	461	2
Revenue Bonds Payable	—	73,185	3,047	3,983
Capital Leases	875	—	—	—
Compensated Absences	—	—	—	—
Total Current Liabilities	1,191	99,644	11,208	6,703
Noncurrent Liabilities:				
Deferred Revenue	4,341	—	—	—
Advances from Primary Government	125,945	—	—	—
Liabilities Payable from Restricted Assets	—	49,967	—	—
Accrued and Other Liabilities	1,934	—	—	—
Revenue Bonds Payable	—	634,715	102,051	237,512
Capital Leases	10,995	—	—	—
Compensated Absences	—	2,770	3,044	348
Total Noncurrent Liabilities	143,215	687,452	105,095	237,860
Total Liabilities	144,406	787,096	116,303	244,563
Net Assets:				
Investment in Capital Assets, Net of Related Debt	9,077	—	441,961	797
Restricted for:				
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Nonexpendable	—	—	—	—
Lending Activities	—	260,964	—	23,016
Loans Receivable	11,570	—	—	—
Specific Component Unit Purposes	—	—	24,688	—
Unrestricted	89,184	62,626	9,586	19,674
Total Net Assets	$109,831	$ 323,590	$476,235	$ 43,487

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

Higher Education	Regional Jail Authority	Other Component Units	Total
$ 371,390	$ 18,359	$ 41,507	$ 493,977
—	999	8,206	11,040
58,418	17,388	3,061	116,284
16,013	359	520	17,000
5,119	454	71	7,792
5,653	—	964	12,713
—	—	6,589	100,196
—	—	—	20,358
—	—	107	107
456,593	37,559	61,025	779,467
437,941	—	—	446,622
47,027	—	—	227,033
22,247	—	—	22,247
—	308	—	71,904
—	—	—	144,325
—	—	—	1,021,597
—	—	890	6,015
1,284,979	153,918	43,891	2,072,679
1,792,194	154,226	44,781	4,012,422
2,248,787	191,785	105,806	4,791,889
43,224	2,982	865	47,476
17,025	—	—	26,355
78,188	1,064	438	107,141
55,299	—	303	55,602
1,392	670	41	2,573
18,664	3,940	—	102,819
5,838	—	401	7,114
29,888	2,248	313	32,449
249,518	10,904	2,361	381,529
—	—	—	4,341
—	—	—	125,945
—	—	2,390	52,357
—	—	410	2,344
715,704	90,110	—	1,780,092
22,958	—	19,688	53,641
63,856	1,004	1,867	72,889
802,518	91,114	24,355	2,091,609
1,052,036	102,018	26,716	2,473,138
794,516	59,148	42,668	1,348,167
39,287	2,047	—	41,334
6,569	1,206	—	7,775
94,157	—	—	94,157
—	—	—	283,980
—	—	—	11,570
84,966	—	4,831	114,485
177,256	27,366	31,591	417,283
$1,196,751	$ 89,767	$ 79,090	$2,318,751

Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Component Units:					
Economic Development Authority	$ 14,428	$ 5,756	$ —	$ —	$ (8,672)
Housing Development Fund	103,322	59,036	50,590	—	6,304
Parkways, Economic Development, and Tourism Authority	75,277	64,910	—	—	(10,367)
Water Development Authority	12,751	14,304	—	—	1,553
Higher Education	1,172,638	452,677	307,511	49,049	(363,401)
Regional Jail Authority	67,332	73,537	—	—	6,205
Other Component Units	57,233	31,160	1,567	—	(24,506)
Total Component Units	$1,502,981	$701,380	$359,668	$49,049	$(392,884)

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
$ 7,604	$ 5,049	$ 1,000	$ 13,653	$ 4,981	$ 104,850	$ 109,831
11,693	—	—	11,693	17,997	305,593	323,590
1,285	—	—	1,285	(9,082)	485,317	476,235
1,346	—	—	1,346	2,899	40,588	43,487
24,450	51,313	403,231	478,994	115,593	1,081,158	1,196,751
448	2,537	—	2,985	9,190	80,577	89,767
357	2,212	24,104	26,673	2,167	76,923	79,090
$47,183	$61,111	$428,335	$536,629	$143,745	$2,175,006	$2,318,751

STATE OF WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Accounting principles generally accepted in the United States (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 a ten-member board appointed by the Governor. The State Superintendent of Schools serves as President and three members are from the State Board of Education. 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 by West Virginia Code §12-6-1 to serve as the administrator, investor, and manager of the State's pension and operating 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 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:

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 Secretary of the Department of Transportation serves as its chairperson and six 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 for areas within 75 miles of the Turnpike. The Authority can also issue bonds and set the rates for using the Turnpike.

Water Development Authority

The Water Development Authority (the Authority) is governed by a seven-member board consisting of the Director of the Division of Environmental Protection, the Commissioner of the Bureau for Public Health, a state official designated annually by the Governor as the most responsible for economic or community development, and four public members appointed by the Governor. 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.

The Fund is comprised of the following: Bluefield State College, Concord University, Eastern West Virginia Community and Technical College, Fairmont State University, Glenville State College, Marshall University (including Marshall University Graduate College), Shepherd University, 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).

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.

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 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 Mr. Terry Hess at the State College and University Systems of West Virginia, Central Office, 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. Eight members are appointed by the Governor and the remaining members include the President of West Virginia University, the President of Marshall University, the Chancellor of the West Virginia Higher Education Policy Commission, the Executive Director of the West Virginia Housing Development Fund, and the Executive Director of the West Virginia Development Office. The Trust is responsible for improving and promoting economic development in the State, primarily through the issuance of loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

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

Administrative Offices:

Economic Development Authority
1018 Kanawha Boulevard
Suite 501
Charleston, WV 25301

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
615 Washington Street, East
Charleston, WV 25311-2126

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 $162,068 and $2,511,975 for the years ended December 31, 2004 and 2003, respectively, as well as negative cash flows from operations of $934,161 and $3,180,664, respectively. Additionally, the Project was required to secure additional debt to meet its debt service requirements during 2004 and 2005. Furthermore, the Project is currently in technical default due to certain bond covenant violations related to the Debt Service Reserve account requirements and debt service coverage ratio. Project management does not believe that there will be sufficient funds available to pay in full the next scheduled debt service payment on April 1, 2006. 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, 2004, included a going concern opinion paragraph emphasizing that these conditions raised substantial doubt about the Project's ability to continue as a going concern. In the event of actual default on the bonds, the bondholders can appoint new management of the resort. In the meantime, 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 accounting principles generally accepted in the United States (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, 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 accounting principles generally accepted in the United States 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

<u>Government-wide Financial Statements</u>

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 recognized when the related expenditures have been incurred. 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, 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 and the earnings on the Tobacco Settlement Medical Trust Fund are to support certain health programs of the State.

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. (See Note 14.)

Employment Security operates local offices throughout the State to serve those seeking and providing employment, through interviewing, testing, counseling, and referral to placement, training, and other services designed to ready individuals for employment.

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

<u>Cash and Cash Equivalents</u> - 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 IMB, and such deposits are generally available with overnight notice. Deposits in the IMB 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.

<u>Investments</u> - Amounts reported as investments include certain deposits with the IMB that are maintained in investment pools having long-term investment securities designated as trading securities or established to acquire participant-directed securities. Such amounts also include other investments maintained outside the IMB's authority. Investments are carried at fair value, with the exception of certain assets, which are reported at amortized cost. 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. The State participates in three external investment pools managed by the IMB. Two are considered 2a-7-like pools and are reported at amortized cost. The third 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. 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 valued at LIFO, 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.

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, 2005, is approximately $125.9 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 in accordance with GASB Statement No. 16, "Accounting for Compensated Absences," 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.

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.

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.

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

GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes accounting and reporting standards for impairment of capital assets and clarifies the accounting requirements for insurance recoveries. The State will implement this standard for the fiscal year ending June 30, 2006, but has not yet estimated the impact of this pronouncement. Additionally, the State plans to implement GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section" (an amendment of NCGA Statement 1), for the fiscal year ending June 30, 2006. This statement should not have a financial impact on the State.

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). These new accounting standards will require the OPEB obligation to be actuarially determined; an annual actuarially determined contribution (ARC) in accordance with GASB will be required; an OPEB obligation and related expense may need to be recorded; and there will be additional disclosures. Management has started the complex analysis that will be required to comply with the standards, which will not be effective for the State until the period beginning after December 15, 2005 (fiscal year 2007 for Statement No. 43 and fiscal year 2008 for Statement No. 45). 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 $3 to $7 billion depending on variations of the actuarial assumptions. Management also plans to introduce legislation in the current session to establish an OPEB irrevocable trust fund to ensure future contributions are dedicated to providing benefits to retirees and their beneficiaries. Accordingly, at the present time the State cannot reasonably estimate the ultimate impact on the 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. 46, “Net Assets Restricted by Enabling Legislation,” an amendment of GASB Statement No. 34. The purpose of Statement 46 is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The State will implement this standard for the fiscal year ending June 30, 2006, but has not yet estimated the financial statement impact of this pronouncement.

The GASB recently issued Statement No. 47, “Accounting for Termination Benefits.” This statement requires employers to recognize liabilities and expenses related to voluntary and involuntary termination benefits. The State will implement this standard for the fiscal year ending June 30, 2006, but has not yet estimated the financial statement impact of this pronouncement.

NOTE 2

RESTATEMENTS, RESTRICTED, AND RESERVED BALANCES

Restatement of Beginning Balances for Governmental Activities

During the current fiscal year, West Virginia Infrastructure and Jobs Development Council restated its beginning Net Asset balance due to an understatement of the beginning balance of capital appreciation bonds outstanding. Although no debt service was scheduled to begin until FY 2006, because the investment return on the initial principal amount is being reinvested at a stated compounded rate until maturity, interest should have been accrued on the capital appreciation bonds and reflected as an increase to the outstanding general obligation bonds on the Statement of Net Assets. As a result of adjusting for the understatement of the capital appreciation bonds, the beginning net assets of the governmental activities is restated as shown below (expressed in thousands):

Net Assets	As Previously Reported	Adjustment	Restated
Governmental Activities	$6,608,382	$(20,733)	$6,587,649

Restricted Net Assets

The following tables summarize the restricted net assets of funds included in “other” columns at June 30, 2005, (expressed in thousands):

Fund Type/ Fund	Total Reporting Entity	Capital Projects	Program Administration	Lending Activities	Other Specific Fund Purposes
Enterprise Funds:					
Drinking Water Treatment Revolving Fund	$39,993	$ —	$ —	$39,993	$ —
West Virginia Prepaid College Plan	149	—	149	—	—
	40,142	—	149	39,993	—
Internal Service Funds:					
State Building Fund	31,914	31,914	—	—	—
Discretely Presented Component Units:					
Educational Broadcasting Authority	730	—	—	—	730
Solid Waste Management Board	4,101	—	—	—	4,101
	4,831	—	—	—	4,831
Total	$76,887	$31,914	$149	$39,993	$4,831

Reserved Fund Balance

The following table summarizes the reserved fund balance of funds included in "other" columns at June 30, 2005, (expressed in thousands):

Fund Type/ Fund	Total Reporting Entity	Inventory	Program Administration	Permanent Funds
Governmental Funds				
Special Revenue Funds:				
Employment Programs	$ 6,518	$77	$6,441	$ —
Permanent Funds:				
Irreducible School	1,430	—	—	1,430
Tobacco Settlement Trust	233,780	—	—	233,780
	235,210	—	—	235,210
Total	$241,728	$77	$6,441	$235,210

The amount reserved for Specific Fund Purposes, $233,700,000, 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

The following table summarizes the designated fund balance of funds included in "other" columns at June 30, 2005, (expressed in thousands):

Fund Type/ Fund	Total Reporting Entity	Capital Projects	Debt Service
Debt Service Funds:			
School Building Authority	$ 51,516	$ —	$ 51,516
West Virginia Infrastructure and Jobs Development Council	97	—	97
Education, Arts, Sciences, and Tourism Fund	25,336	—	25,336
Lease Purchase Accounts	14,390	—	14,390
Economic Development Project Fund	33,571	—	33,571
	124,910	—	124,910
Capital Projects Funds:			
School Building Authority	221,556	221,556	—
Education, Arts, Sciences, and Tourism Fund	86	86	—
Lease Purchase Accounts	54,801	54,801	—
	276,443	276,443	—
Total	$401,353	$276,443	$124,910

Designation of fund balance in the governmental funds of $147,690,000 represents commitments of the West Virginia Infrastructure and Jobs Development Council to loan funds to applicants for infrastructure projects. After year-end and through December 31, 2005, loan and grant agreements were executed for approximately $53 million of these funds.

NOTE 3

FUND DEFICITS

Individual funds with net asset/fund balance deficits at June 30, 2005, were as follows (expressed in thousands):

	Net Asset/ Fund Balance Deficit
Special Revenue Funds:	
Bureau of Employment Programs	$ 2,634
Enterprise Funds:	
Workers' Compensation Fund	2,331,401
West Virginia Prepaid College Plan	6,648
Total Deficits	$2,340,683

Special Revenue Funds

The fund balance of the Bureau of Employment Programs (BEP) changed from $1.5 million to a deficit of $2.6 million, a 273% decrease in fund balance. This is due to BEP providing goods and services that are not reimbursable by the federal grantors and the continued increase of restricted net assets. Some of those net assets either are restricted as to the purpose for which they can be used or are invested in capital assets. In addition, this deficit is in part due to BEP's liability for compensated absences. The federal grant programs of BEP provide funding for compensated absences only for actual payments made to employees. Consequently, BEP's unrestricted net assets show a $14.4 million deficit at the end of the year. The unrestricted net asset deficit increased from $9.5 million, which is a 51% increase from last year.

Enterprise Funds

Workers' Compensation Fund deficit of $2,331,401,000 is more fully discussed in Note 14, Risk Management.

West Virginia Prepaid College Plan (the Plan) has a net assets deficiency of approximately $6.6 million as of June 30, 2005. 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 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 in the form of a pledge of assets from the State Unclaimed Property Trust Fund (the Fund) 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. The Escrow Account will receive transfers of up to $500,000 from the Fund each year there is an actuarially determined unfunded liability of the Plan. 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 2004 and 2003, $500,000 was transferred each year to the Escrow Account because the Plan had actuarial deficits of approximately $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 $56,887 for the two years ended June 30, 2005, leaving the account with a balance of $1,056,887 at June 30, 2005. Because there was an actuarially determined unfunded liability of approximately $6.6 million in the Plan as of June 30, 2005, an additional $500,000 was transferred from the Fund to the Escrow Account on December 1, 2005, 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 all benefits due.

Management believes that the Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2006. The financial statements do not reflect any adjustments that might result should the elimination of 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 approved outside bank account. The State Treasurer's Office approves all outside bank accounts.

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.

In 2005, the State adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," which requires additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with investments. Such disclosures required by GASB No. 40 are reflected in this note to the financial statements.

<u>Primary Government</u>

At June 30, 2005, the reported amount of the primary government's deposits was $180,710,000 and the bank balance was $324,039,000. Of that bank balance, $49,000 was uninsured and uncollateralized, $1,376,000 was uninsured and collateralized with securities held by the pledging financial institution but not in the name of the State, and $1,340,000 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.

<u>Component Unit</u>

At June 30, 2005, the reported amount of the component unit's deposits was $144,930,000 and the bank balance was $104,726,000. Of that bank balance, $683,000 was uninsured and uncollateralized.

Investments

The State's investment policies allow agencies to invest funds with the IMB in accordance with West Virginia Code and policies set by IMB. The investment policy also allows agencies to invest with third-party trustees as specified in the bond trust indentures for its outstanding bonds. 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.

The State Treasurer's Office determines which funds to transfer to the IMB for investment in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable.

The IMB provides fiscal administration, investment, and management of the State's pension assets except for the State's defined contribution plan for certain teachers and education personnel who self-direct investments in privately managed funds. In addition, local political subdivisions within the State are permitted to invest in certain pools maintained by IMB.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. 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.

In addition to amounts invested with the IMB, 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; Children's Health Insurance Program; 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, 2005, 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.

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:

a. Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.

b. 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 results of operations 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.

<u>Futures Contracts</u>

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, 2005, the futures contracts had the following open positions (expressed in thousands):

	Value Upon Entering Contract	Value at June 30, 2005	Net Gain or (Loss)
Long-Non-Large Cap Domestic Equity Pool	$ 2,093	$ 2,172	$ 79
Long-Fixed Income Pool	163,641	164,106	465
Short-Fixed Income Pool	(357,824)	(358,675)	(851)

At June 30, 2005, the Non-Large Cap pool and the Fixed Income pool have pledged cash and securities valued at $119,000 and $1,921,000, respectively, to cover initial margin requirements on open futures contracts.

At June 30, 2005, the net variation margin payables of $4,000 from the Non-Large Cap pool and $378,000 from 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, 2005, the open option contracts had the following future balances:

	Premiums Paid	Value at June 30, 2005
Call Options	$1,011	$766

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. Risk associated with such contracts include movement in the value of the foreign currency related 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, 2005, the IMB was party to outstanding foreign exchange forward contracts to purchase foreign currencies with contract amounts of $86.82 million, collectively. Market values of these outstanding contracts were $86.99 million resulting in net unrealized gains of approximately $163,000. 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.

Security Loans

The IMB is authorized by statute and policy to participate in a securities lending program. Through its agent, Mellon Bank, the IMB loans 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 IMB is not allowed to pledge or sell any collateral securities unless the borrower defaults. Cash collateral received is invested in the Mellon GSL DBT II Collateral Fund. The Collateral Fund operates as a stable value fund and provides for liquidity to meet maturing loans. The IMB receives a portion of the income from the investment of the collateral and also continues 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. Under the terms of the contract, Mellon Bank indemnifies the IMB for certain events of borrower default. As of June 30, 2005, the IMB has no credit risk exposure to borrowers because the amounts the IMB owes the borrowers exceed the amounts the borrowers owe the IMB.

At June 30, 2005, the fair value of securities on loan and collateral held by the pools of the IMB are as follows (expressed in thousands). Of the collateral held, $1.38 billion was received as cash.

	Fair Value of Securities on Loan	Collateral Held
Large Cap Domestic	$ 102,219	$ 105,387
Non-Large Cap Domestic	117,693	122,154
International Equity	88,490	93,210
Short-Term Fixed Income	67,444	68,826
Fixed Income	661,654	674,200
Cash Liquidity	325,507	332,035
Government Money Market	24,544	25,038
Enhanced Yield	107,588	109,470
Total	$1,495,139	$1,530,320


STATE OF WEST VIRGINIA.
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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 for the Fixed Income Pool do not include the 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.

	Large Cap Domestic	Non-Large Cap Domestic	International Qualified	International Nonqualified
Primary Government:				
Workers' Compensation EELF	$ 4,631	$ 2,591	$ —	$ 1,047
Workers' Compensation Fund	40,696	24,478	—	2,476
Pneumoconiosis Fund	22,169	12,510	—	5,140
Wildlife Endowment Fund	8,765	5,270	—	2,164
Prepaid Tuition Trust Fund	22,691	13,626	—	5,587
Prepaid Tuition Trust Escrow Fund	—	—	—	—
Tobacco Settlement Trust	55,700	32,359	—	11,500
Board of Risk & Insurance Management	8,360	5,519	—	477
Total Primary Government	163,012	96,353	—	28,391
Percentage of Ownership	10.86%	10.76%	—%	100%
Fiduciary Funds:				
Judges' Retirement System	19,018	11,477	4,751	—
Public Employees' Retirement System	861,722	523,160	229,869	—
Teachers' Retirement System	404,839	232,606	101,558	—
Public Safety Retirement System	28,669	17,408	8,193	—
State Police Retirement System	6,377	3,757	1,557	—
West Virginia Deputy Sheriff's Retirement System	17,197	10,344	4,441	—
Total Fiduciary Funds	1,337,822	798,752	350,369	—
Percentage of Ownership	89.14%	89.24%	100%	—%
Total Amount	$1,500,834	$895,105	$350,369	$28,391
Percentage of Ownership	100%	100%	100%	100%

International Equity	Short-Term Fixed Income	Fixed Income	Fixed Income Qualified	Fixed Income Nonqualified	Totals (Memorandum Only)
$ 2,377	$ 1,138	$ 8,432	$ —	$ 6,384	$ 26,600
28,602	35,085	470,278	—	365,440	967,055
11,289	10,955	111,067	—	73,848	246,978
4,630	61	8,184	—	5,543	34,617
11,956	10	21,123	—	14,260	89,253
—	—	635	—	421	1,056
28,368	967	50,199	—	33,761	212,854
9,276	155	46,981	—	30,950	101,718
96,498	48,371	716,899	—	530,607	1,680,131
12.03%	12.14%	37.75%	—%	100%	23.32%
10,016	371	17,404	11,675	—	74,712
461,384	21,439	776,132	524,695	—	3,398,401
207,126	76,461	341,498	233,277	—	1,597,365
14,598	250,782	25,439	16,053	—	361,142
3,315	500	5,851	3,927	—	25,284
9,117	614	15,729	10,729	—	68,171
705,556	350,167	1,182,053	800,356	—	5,525,075
87.97%	87.86%	62.25%	100%	—%	76.68%
$802,054	$398,538	$1,898,952	$800,356	$530,607	$7,205,206
100%	100%	100%	100%	100%	100%

Investment Pool Descriptions

Large Cap Domestic

The pool's objective is to equal or exceed the S&P 500 Stock Index over a three- to five-year period. Enhanced Investment Technologies 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 equal or exceed the Russell 2500 Index over a three- to five-year period. Assets of this pool are managed by Aronson + Johnson + Ortiz, Brandywine Asset Management, Wellington Management Company, 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 rolling three- to five-year periods, net of 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, 2005, was $350,542,583. 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 rolling three- to five-year periods, net of 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, 2005, was $28,391,772. 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. LSV Asset Management, TT International Investment Management, and Wasatch Advisors Inc. manage assets of this pool, and a portion of the assets are invested in Capital International Inc.'s Emerging Markets Growth Fund. The objective of the International Equity is to exceed Morgan Stanley Capital International's All Country World Free Ex US Index over rolling three- to five-year periods, net of fees. 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):

Currency	Equity Securities	Cash	Total
Australian Dollar	$ 13,291	$ 375	$ 13,666
British Pound	119,895	4,400	124,295
Canadian Dollar	22,258	(201)	22,057
Danish Krone	3,704	27	3,731
Euro	167,605	5,158	172,763
Hong Kong Dollar	18,055	79	18,134
Indian Rupee	6,778	—	6,778
Israeli Shekel	898	41	939
Japanese Yen	125,559	2,074	127,633
Malaysian Ringgit	1,999	18	2,017
Mexican New Peso	1,881	37	1,918
New Zealand Dollar	2,498	23	2,521
Norwegian Krone	6,613	60	6,673
Singapore Dollar	8,164	213	8,377
South African Rand	1,939	46	1,985
South Korean Won	7,451	282	7,733
Swedish Krona	20,786	570	21,356
Swiss Franc	38,255	1,635	39,890
Taiwan Dollar	4,045	678	4,723
Total	$571,674	$15,515	$587,189
Mutual Fund	187,529	—	187,529
United States Currency	27,630	—	27,630
Total	$786,833	$15,515	$802,348

This pool also has $187,529,201 invested in an institutional mutual fund that invests in equities of foreign countries. The value of this investment, although denominated in U.S. dollars, is exposed to foreign currency risk.

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. is the manager of this pool.

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):

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. Treasury Bills	Aaa	AAA	$ 59,973	15.1%
Commercial Paper	P1	A-1	50,759	12.7%
Agency Discount Notes	P1	A-1	11,949	3.0%
Agency Bonds	Aaa	AAA	11,450	2.9%
Certificates of Deposit	P1	A-1	6,000	1.5%
Money Market Funds	Aaa	AAA	328	0.1%
Total Rated Investments			$140,459	35.3%
Unrated Securities			258,000	
Total Securities			$398,459	

Unrated securities consists of repurchase agreements of $258,000,000. Acceptable collateral for the repurchase agreements include U.S. Treasury securities which are exempt from credit risk and government agency securities, for which credit risk was not readily available from IMB.

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):

Security Type	Carrying Value	WAM (Days)
Repurchase Agreements	$258,000	1
U.S. Treasury Bills	59,973	7
Commercial Paper	50,759	53
Agency Discount Notes	11,949	81
Agency Bonds	11,450	114
Certificates of Deposit	6,000	117
Money Market Funds	328	1
Total Assets	$398,459	16

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):

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. Treasury Bonds and Notes	Aaa	AAA	$ 618,761	32.3%
Corporate Bonds and Notes	A	BBB	383,042	20.0%
Agency Bonds	Aaa	AAA	56,867	3.0%
Corporate Asset Backed Securities	Aaa	AAA	48,361	2.5%
Agency Discount Notes	P1	A-1	1,921	0.1%
Money market Funds	Aaa	AAA	669	0.0%
Total Rated Investments			$1,109,621	57.9%
Unrated Securities			808,513	
Total Securities			$1,918,134	

Unrated securities include commingled investment pools of $731,111,900 and repurchase agreements of $77,400,000. Acceptable collateral for the repurchase agreements include U.S. Treasury securities which are exempt from credit risk and government agency securities, for which credit risk was not readily available from IMB. At June 30, 2005, the ratings of the following securities had dropped below a rating of B: Dynegy Holdings (Caa, CCC), El Paso Corporation (Caa), Intelsat (Caa) and Sonat (Caa). The value of these securities at June 30, 2005, was $7,298,775. This represents approximately 0.4% of the pool. The IMB continues to monitor the creditworthiness of these companies.

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):

Security Type	Fair Value	Modified Duration (years)
Commingled Investment Pools	$ 731,113	4.4
U.S. Treasury Notes and Bonds	618,761	5.6
Corporate Notes and Bonds	383,042	6.6
Repurchase Agreements	77,400	0.0
Agency Bonds	56,867	7.2
Corporate Asset Backed Securities	48,361	3.7
Agency Discount Notes	1,921	0.4
Money Market Fund	669	0.0
Total Assets	$1,918,134	5.1

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, 2005, the Fixed Income pool held $259,008,821 of these securities. This represents approximately 8 % 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 $800,406,349 at June 30, 2005, that invest in U.S. Treasury obligations and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.9 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 $530,634,965 at June 30, 2005, that invest in U.S. Treasury obligations and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.9 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 Investment Advisors, Inc. and UBS Global Asset Management.

Credit Risk
The IMB limits the exposure to credit risk in the Cash Liquidity 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 Cash Liquidity pool's investments (expressed in thousands):

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial Paper	P1	A-1	$ 598,241	37.9%
U.S. Treasury Bills	Aaa	AAA	259,398	16.4%
Corporate Notes	Aaa	AAA	155,559	9.9%
Certificates of Deposit	P1	A-1	152,999	9.7%
Agency Bonds	Aaa	AAA	147,956	9.4%
Agency Discount Notes	P1	A-1	119,564	7.6%
Money Market Funds	Aaa	AAA	4,241	0.3%
Total Rated Investments			$1,437,958	91.2%
Unrated Securities			141,050	
Total Securities			$1,579,008	

Unrated securities include repurchase agreements of $141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury securities which are exempt from credit risk and government agency securities for which credit risk was not readily available from IMB.

Interest Rate Risk

The weighted-average maturity of the investments of the Cash Liquidity 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 Cash Liquidity pool (expressed in thousands):

Security Type	Total Carrying Value	Carrying Value for Primary Government	Carrying Value for Investment Trust Funds	Carrying Value for Agency Funds	Carrying Value for Component Units	WAM (Days)
Commercial Paper	$ 598,241	$ 469,679	$19,503	$ 7,119	$101,940	49
U.S. Treasury Bills	259,398	203,654	8,456	3,087	44,201	30
Corporate Notes	155,559	122,130	5,071	1,851	26,507	53
Certificates of Deposit	152,999	120,119	4,988	1,821	26,071	42
Agency Bonds	147,956	116,160	4,823	1,761	25,212	88
Repurchase Agreements	141,050	110,739	4,598	1,678	24,035	1
Agency Discount Notes	119,564	93,869	3,898	1,423	20,374	52
Money Market Funds	4,241	3,330	138	50	723	1
Total Assets	$1,579,008	$1,239,680	$51,475	$18,790	$269,063	45
Percentage of Ownership	100%	78.51%	3.26%	1.19%	17.04%	

Government Money Market

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

Credit Risk
The IMB 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. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

Interest Rate Risk
The weighted-average maturity of the investments of the Government Money Market 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 Government Money Market pool (expressed in thousands):

Security Type	Total Carrying Value	Carrying Value for Primary Government	Carrying Value for Investment Trust Funds	Carrying Value for Component Units	WAM (Days)
Agency Discount Notes	$ 46,410	$2,408	$ 40,971	$ 3,031	32
Agency Bonds	42,571	2,209	37,582	2,780	75
Repurchase Agreements	39,950	2,073	35,268	2,609	1
U.S. Treasury Bills	24,904	1,293	21,985	1,626	48
Money Market Funds	985	51	870	64	1
Total Assets	$154,820	$8,034	$136,676	$10,110	38
Percentage of Ownership	100%	5.19%	88.28%	6.53%	

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 IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A 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 Enhanced Yield pool's investments (expressed in thousands):

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate Notes	A	AA	$ 81,632	30.0%
Agency Bonds	Aaa	AAA	69,203	25.5%
U.S. Treasury Notes	Aaa	AAA	66,467	24.5%
Corporate Asset Backed Securities	Aaa	AAA	49,990	18.4%
Total Rated investments			$267,292	98.4%
Unrated Securities			4,362	
Total Securities			$271,654	

Unrated securities include repurchase agreements of $4,362,262. Acceptable collateral for the repurchase agreements include U.S. securities which are exempt from credit risk and government agency securities for which credit risk was not readily available from IMB.

Interest Rate Risk

The weighted-average maturity of the investments of the Enhanced Yield pool cannot exceed two years. 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 Enhanced Yield pool (expressed in thousands):

Security Type	Total Carrying Value	Fair Value for Primary Government	Fair Value for Investment Trust Funds	Fair Value for Component Units	WAM (Days)
Corporate Notes	$ 81,632	$ 65,494	$24	$16,114	1.7
Agency Bonds	69,203	55,521	21	13,661	1.9
U.S. Treasury Notes	66,467	53,326	20	13,121	2.3
Corporate Asset Backed Securities	49,990	40,107	15	9,868	1.1
Repurchase Agreement	4,362	3,500	1	861	—
Total Assets	$271,654	$217,948	$81	$53,625	1.7
Percentage of Ownership	100%	80.23%	0.03%	19.74%	

Loss Amortization

In 1987 and 1988, certain investment pools, primarily the Unrestricted Pool (predecessor to Cash Liquidity), distributed earnings to participants in excess of the true investment income experience of the pools. This resulted in participant claims on net assets exceeding the underlying assets of the pools. The Loss Amortization pool was created to account for those participant claims on the general operating funds of the State.

This pool holds a U.S. Treasury strip valued at $149,205,000 that matures on August 15, 2011. The IMB'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 IMB to hold this security to maturity. The following table is expressed in thousands:

		Interest Rate Risk			
Security Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Primary Government:					
U.S. Treasury Strip	$149,205	$—	$—	$149,205	$—

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 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. The IMB addresses the risk by evaluating the need for and establishing a reserve for uncollectible accounts.

The Municipal Bond Commission, Lottery Defeasance, School Fund, EDA Insurance, and EDA-AW pools are maintained for individual State agencies with specific investment needs. Each agency has 100 percent ownership of the underlying investments in its pool and is solely responsible for the investment decisions in accordance with the legal restrictions applicable to those assets. The Board serves in a custodial capacity and has no discretion over the investment decisions for these pools. The EDA-AW account was established on September 1, 2004.

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. These securities are valued at amortized cost in accordance with GASB 31 and thus are not exposed to interest rate risk.

Lottery Defeasance

This account holds only U.S. Treasury securities with maturities timed to match lottery winner payouts. The securities are not an interest rate risk because they are held to maturity and are part of the primary government.

School Fund

The assets of this account are invested in a money market mutual fund which is rated AAA by Standard & Poor's and Aaa by Moody's. The following table is expressed in thousands:

		Interest Rate Risk			
Security Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Governmental Activities:					
Money Market	$1,427	$1,427	$—	$—	$—

EDA Insurance

This account held a U.S. Treasury bill valued at $454,000 that matured on December 15, 2005. The Economic Development Authority's investment policy limits this account to holding only U.S. Treasury securities with six-month maturities (expressed in thousands):

		Interest Rate Risk			
Security Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Component Unit Activities:					
U.S. Treasury Notes	$454	$454	$—	$—	$—

EDA-AW

This account only holds a U.S. Treasury bond valued at $1,801,000 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):

		Interest Rate Risk			
Security Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Component Unit Activities:					
U.S. Treasury Notes	$1,801	$—	$—	$—	$1,801

This schedule reconciles disclosed investment values to net asset values of the pools as reflected in the accompanying financial statements, at IMB at June 30, 2005, (expressed in thousands):

Pool Name	Disclosed Value at June 30, 2005	Pool Receivables/ (Payables)	Net Asset Values
Large Cap Domestic	$1,500,175	$ 659	$1,500,834
Non-Large Cap Domestic	896,664	(1,559)	895,105
International Qualified	350,543	(174)	350,369
International Nonqualified	28,392	(1)	28,391
International Equity	786,833	15,221	802,054
Short-Term Fixed Income	398,459	79	398,538
Fixed Income	1,918,134	(19,182)	1,898,952
Fixed Income Qualified	800,406	(50)	800,356
Fixed Income Nonqualified	530,635	(28)	530,607
Cash Liquidity	1,579,008	26,710	1,605,718
Government Money Market	154,820	200	155,020
Enhanced Yield	271,654	(10,636)	261,018
Loss Amortization	149,205	—	149,205
Loans	139,777	344	140,121
Municipal Bond Commission	49,782	413	50,195
Lottery Defeasance	1,665	–	1,665
School Fund	1,427	3	1,430
EDA Insurance	454	—	454
EDA - AW	1,801	34	1,835
Total Pooled Investments	9,559,834	12,033	9,571,867
Less EDA	125,945	—	125,945
Less MBC	49,782	413	50,195
Less CD's	152,999	—	152,999
Total for Disclosure	$9,231,108	$ 11,620	$9,242,728

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):

Security Type	Fair Value	Moody's	S&P
Primary Government:			
Guaranteed Investment Contracts	$ 263,722	Aaa	AAA
	129,499	Unrated	Unrated
Money Market/Mutual Funds	87	Aa1	AAA
	4,116	Aaa	AAA
	217,917	Aaa	AAAm
	306	AAA	AAAm
	21,798	Unrated	AAAm
	1,419	Aaa	AAAm-G
	9	Unrated	Unrated
Mutual Bond Funds	82,558	Aaa	AAAm
Repurchase Agreements	156	Aaa	AAA
	6,000	Unrated	Unrated
U.S. Government and Agency Obligations	6,399	Aaa	AAA
	35,189	Aaa	AAAm
	$ 769,175		
Pension and Private Purpose Trust Funds:			
Money Market/Mutual Funds	$1,182,819	Unrated	Unrated
Component Units:			
Common and Preferred Stock	$ 75,889	N/A	N/A
Corporate Bonds	1,896	AA+	AA+
	3,866	Aaa	AAA
	1,247	A	BBB
	27,509	Unrated	Unrated
Guaranteed Investment Contracts	155,938	Aaa	AAA
	102,814	Unrated	Unrated
Money Market/Mutual Funds	23,708	Aaa	AAAm
	681	Aaa	AAAm-G
	155	Aaa	N/A
	17	N/A	N/A
	31,743	Unrated	Unrated
Mortgages Held for Investment	22,283	N/A	N/A
Other Investments	20,747	Unrated	Unrated
Repurchase Agreements	15,707	Aaa	AAA
	112,639	aaa	AAA
	27,000	Aa2	AA-
	26,365	Unrated	Unrated
U.S. Government and Agency Obligations	3,082	Unrated	A-1+
	33,389	Aaa	AAA
	84,813	aaa	AAA
	31,569	Unrated	Unrated
	$ 803,057		

Concentration of Credit Risk

As of June 30, 2005, the State had investment balances with the following issuers which are greater than or equal to 5% of the investment balance (expressed in thousands):

Security Type	Fair Value	Issuer	Percentage of Concentration
Primary Government:			
Guaranteed Investment Contracts	$ 86,149	Financial Security Assurance Capital Management Services, LLC	11.2%
	39,379	United Bank	5.1%
	109,853	United Bank	14.3%
Money Market/Mutual Funds	209,497	Federated Prime Obligations	27.2%
Pension and Private Purpose Trust Funds:			
Mutual Funds	93,506	American Funds Growth Fund A	7.9%
	70,163	Franklin Income Fund - A	5.9%
	241,681	Valic Fixed Annuity Option	20.4%
	552,930	Hartford Life Insurance Company	46.7%
Component Units:			
Common and Preferred Stocks	67,683	$66,335 of the $67,683 are invested by the Foundations at the Higher Education campuses which are reported under FASB and the information is not available	8.4%
Guaranteed Investment Contracts	155,938	FSA Capital Management Services LLC	19.4%
	99,622	United Bank, Inc./Citigroup Global Markets, Inc.	12.4%
Repurchase Agreement	112,639	Federal Agency Obligations	14.0%
U.S. Government & Agency Obligations	84,813	Federal Agency Obligations	10.6%

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Component Units

At June 30, 2005, the reported amount of the component unit's investments was $803,057,000. Of the amount, $35,000 was uninsured and unregistered with securities held by the counterparty, or counterparty's trust department or agent but not in the name of the State (expressed in thousands):

Interest Rate Risk

Security Type	Fair Value	Interest Rate Risk: Less than 1	1 - 5	6 - 10	More than 10
Primary Government:					
U.S. Government & Agency Obligations	$ 41,588	$ 41,588	$ —	$ —	$ —
Repurchase Agreements	6,156	—	—	6,000	156
Guaranteed Investment Contracts	393,221	—	359,668	13,907	19,646
Money Market/Mutual Funds	245,652	245,652	—	—	—
Mutual Bond Fund	82,558	82,558	—	—	—
Total Primary Government	769,175	369,798	359,668	19,907	19,802
Pension & Private Purpose Trust Funds:					
Money Market/Mutual Funds	1,182,819	1,182,819	—	—	—
Component Units:					
U.S. Government & Agency Obligations	152,853	33,430	43,029	7,323	69,071
Corporate Bonds	34,518	29,586	3,605	1,327	—
Common & Preferred Stocks	75,889	67,703	—	—	8,186
Repurchase Agreements	181,711	160,471	7,355	11,245	2,640
Guaranteed Investment Contracts	258,752	102,814	155,938	—	—
Money Market/Mutual Funds	56,304	54,197	—	—	2,107
Mortgages Held for Investment	22,283	—	—	—	22,283
Other Investments	20,747	20,747	—	—	—
Total Component Units	803,057	468,948	209,927	19,895	104,287
Total Outside Investments	$2,755,051	$2,021,565	$569,595	$39,802	$124,089

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, 2005, (expressed in thousands):

Deposits:

Cash and Cash Equivalents as Reported on the Statement of Net Assets	$ 4,059,377
Cash and Cash Equivalents as Reported on the Statement of Fiduciary Net Assets	247,972
Add:	
Restricted Cash and Cash Equivalents as Reported	206,000
Less:	
Cash Equivalents and Restricted Cash Disclosed as Investments	(3,955,354)
Cash with U.S. Treasury for Unemployment Programs	(232,355)
Reported Value of Deposits as Disclosed in this Footnote	$ 325,640

Investments:

Investments as Reported on the Statement of Net Assets	$ 1,142,894
Investments as Reported on the Statement of Fiduciary Net Assets	6,710,919
Add:	
Restricted Investments as Reported	186,765
Cash Equivalents and Restricted Cash Disclosed as Investments	3,955,354
Accrued Interest Disclosed as Investments	1,847
Reported Value of Investments as Disclosed in this Footnote	$11,997,779

IMB Investment Total	$ 9,242,728
Outside Investment Total	2,755,051
	$11,997,779

NOTE 5

RECEIVABLES
(Expressed in Thousands)

Receivables

Receivables at June 30, 2005, consisted of the following:

	Governmental Funds				
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental	Total Governmental Receivables
Taxes	$ 394,169	$ 59,089	$ —	$ —	$ 453,258
Accounts	154,986	64,051	39	10,458	229,534
Loans	3,735	—	282,556	—	286,291
Accrued Interest	3,976	—	841	5,437	10,254
Total Receivables	556,866	123,140	283,436	15,895	979,337
Allowance for Doubtful Accounts	(114,016)	—	—	(926)	(114,942)
Receivables, Net	$ 442,850	$123,140	$283,436	$14,969	$ 864,395
As reported on the Fund Financial Statements					
Current Receivables, Net	$ 442,850	$123,140	$283,436	$14,969	$ 864,395
Noncurrent Receivables, Net	—	—	—	—	—
Receivables, Net	$ 442,850	$123,140	$283,436	$14,969	$ 864,395

	Fiduciary Funds		
	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds
Accounts	$ —	$ —	$ —
Loans	12,793	—	—
Leases	—	—	—
Contributions	30,825	4,038	—
Accrued Interest	—	—	47
Other	—	—	8,334
Total Receivables	43,618	4,038	8,381
Allowance for Doubtful Accounts	—	—	—
Receivables, Net	$43,618	$4,038	$8,381
As reported on the Fund Financial Statements			
Current Receivables, Net	$43,618	$4,038	$8,381
Noncurrent Receivables, Net	—	—	—
Receivables, Net	$43,618	$4,038	$8,381

Enterprise Funds

West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Employment Securities	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Enterprise	Total Enterprise	Internal Service Funds
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
26,926	280	214,209	37,330	20,774	990	8,580	309,089	3,820
—	356,872	—	—	—	—	29,663	386,535	—
—	—	—	—	—	—	25	25	9
26,926	357,152	214,209	37,330	20,774	990	38,268	695,649	3,829
—	—	—	—	(1,225)	(507)	—	(1,732)	—
$26,926	$357,152	$214,209	$37,330	$19,549	$ 483	$38,268	$693,917	$3,829
$26,926	$ 17,843	$214,209	$37,330	$19,549	$ 111	$ 3,713	$319,681	$3,829
—	339,309	—	—	—	372	34,555	374,236	—
$26,926	$357,152	$214,209	$37,330	$19,549	$ 483	$38,268	$693,917	$3,829

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
$ —	$809,911	$1,270	$240,242	$ 61,714	$17,388	$ 962	$1,131,487
138,663	40,869	—	18,636	63,457	—	2,099	263,724
23,967	—	—	—	—	—	—	23,967
642	—	—	—	—	—	—	642
3,232	4,512	303	—	—	—	—	8,047
—	—	—	—	—	—	—	—
166,504	855,292	1,573	258,878	125,171	17,388	3,061	1,427,867
(3,800)	(39,427)	—	—	(19,726)	—	—	(62,953)
$162,704	$815,865	$1,573	$258,878	$105,445	$17,388	$3,061	$1,364,914
$ 21,108	$ 5,435	$1,573	$ 9,301	$ 58,418	$17,388	$3,061	$ 116,284
141,596	810,430	—	249,577	47,027	—	—	1,248,630
$162,704	$815,865	$1,573	$258,878	$105,445	$17,388	$3,061	$1,364,914

Taxes Receivable

Taxes receivable at June 30, 2005, consisted of the following:

	Governmental Funds		
	General	Transportation	Total
Taxes Receivable:			
Consumer Sales	$177,478	$ —	$177,478
Personal Income	101,031	—	101,031
Severance	36,083	—	36,083
Business and Occupation	15,632	—	15,632
Automobile Privilege Taxes	—	26,999	26,999
Aviation Fuel Tax	—	65	65
Gasoline Excise	—	29,890	29,890
Registration Fees	—	2,135	2,135
Insurance	34,835	—	34,835
Corporate Net Income	15,599	—	15,599
Other	13,511	—	13,511
Total	$394,169	$59,089	$453,258

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:

Year Ended June 30	Direct Financing Leases Amounts Due
2006	$ 5,696
2007	3,160
2008	2,093
2009	2,093
2010	7,001
2011-2025	9,326
Total Minimum Amount Due	29,369
Less Amount Representing Interest	(5,402)
Present Value of Minimum Lease Amount Due	$23,967


STATE OF WEST VIRGINIA.
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NOTE 6

INTERFUND BALANCES

The following table details the interfund balances and activity as of and for the year ended June 30, 2005, (expressed in thousands):

	Due From			
	Governmental			
Due To	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Governmental Funds:				
General	$ —	$ 120	$ —	$ 30
Transportation	881	—	—	13
Other Nonmajor Governmental	20,943*	15	—	—
Total Governmental Funds	21,824	135	—	43
Proprietary Funds:				
West Virginia Lottery	—	—	—	—
Water Pollution Control Revolving Fund	—	—	—	61
Workers' Compensation Fund	1,889	2,299	—	214
Employment Security	202	35	—	17
Public Employees' Insurance Agency	1,965	1,267	—	—
Board of Risk and Insurance Management	—	—	—	—
Other Nonmajor Proprietary	25	—	—	—
Internal Service Funds	6,803	507	—	452
Total Proprietary Funds	10,884	4,108	—	744
Pension Trust Funds	8	1,054	—	—
Discretely Presented Component Units				
Major:				
Water Development Authority	—	—	91	—
Higher Education	14,184	30	—	—
Regional Jail Authority	74	—	—	—
Nonmajor:				
State Rail Authority	407	—	—	—
Educational Broadcasting	—	—	—	—
Total Discretely Presented Component Units	14,665	30	91	—
Total	$47,381	$5,327	$91	$787

The general fund Due to Other Funds includes $6,803,000 to the Internal Service Funds which is made up of $263,000 for building rent, $2,353,000 for computer services, $3,454,000 for telecommunications, and $733,000 for vehicle rentals; and $14,184,000 to Higher Education for the Promise Scholarship. The general fund Due from Other Funds includes $27,763,000 from Lottery, of which $5,274,000 goes to the general fund, $1,304,000

Due From									
Proprietary									
West Virginia Lottery	Water Pollution Control Revolving Fund	Workers' Compensation Fund	Employment Security	Public Employees' Insurance Agency	Board of Risk and Insurance Management	Other Nonmajor	Internal Service Funds	Discretely Presented Component Units	Total
$27,763	$ —	$3,232	$ —	$127	$ —	$ 8	$ 9	$ 740	$32,029
—	—	2,518	27	211	—	—	—	7	3,657
1,000	57	182	—	27	—	—	13	—	22,237
28,763	57	5,932	27	365	—	8	22	747	57,923
—	—	18	—	1	—	—	—	—	19
—	—	—	—	—	—	—	—	—	61
19	—	—	—	—	—	26	—	867	5,314
—	—	18	—	36	—	—	3	98	409
—	—	35	—	—	—	—	—	312	3,579
—	—	108	—	—	—	—	—	—	108
—	—	—	—	—	—	—	—	—	25
318	—	695	153	184	15	23	211	549	9,910
337	—	874	153	221	15	49	214	1,826	19,425
—	—	—	—	—	—	—	—	—	1,062
—	17	—	—	—	—	—	—	—	108
—	—	1,374	—	—	—	—	425	—	16,013
—	—	285	—	—	—	—	—	—	359
—	—	10	—	—	—	—	—	—	417
102	—	—	—	1	—	—	—	—	103
102	17	1,669	—	1	—	—	425	—	17,000
$29,202	$74	$8,475	$180	$587	$15	$57	$661	$2,573	$95,410

to Natural Resources, $3,974,000 to Library Commission, $14,889,000 to Senior Services, and $1,410,000 to Culture and History. *The general fund also has a long-term Due to Other Funds for $20,798,000 to the Tobacco Settlement Medical Trust Fund for a loan given to the West Virginia Physicians Mutual Insurance Company (WVPMIC). The general fund is recording a long-term receivable from the WVPMIC.

NOTE 7

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following (expressed in thousands):

	Transfers From		
	Governmental		
Transfers To	General	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Governmental Funds:			
General	$ —	$ —	$ 5,965
Transportation	4,135	—	15
West Virginia Infrastructure and Jobs Development Council	—	—	2,838
Other Nonmajor Governmental	127,790	—	2,875
Total Governmental Funds	131,925	—	11,693
Proprietary Funds:			
Water Pollution Control Revolving Fund	—	8,307	31,478
Workers' Compensation Fund	5,000	—	—
Board of Risk and Insurance Management	2,000	—	—
Other Nonmajor Proprietary	2,861	1,601	—
Internal Service Funds	2,492	—	—
Total Proprietary Funds	12,353	9,908	31,478
Total	$144,278	$9,908	$43,171

The Department of Environmental Protection transferred $31.4 million to the Water Pollution Control Revolving Fund for the treatment of water quality within the State. The West Virginia Lottery transferred, as mandated by State Code, $18 million to the School Building Authority for bond debt service, $40 million to the West Virginia Infrastructure and Jobs Development Council, and $443 million to the general fund. The general

Transfers From				
Proprietary				
West Virginia Lottery	Employment Security	Internal Service Funds	Other Nonmajor	Total
$443,134	$ —	$1,402	$11,033	$461,534
—	—	—	—	4,150
40,000	—	—	—	42,838
27,994	660	—	—	159,319
511,128	660	1,402	11,033	667,841
—	—	—	—	39,785
9,000	—	—	—	14,000
—	—	—	—	2,000
—	—	—	—	4,462
12,734	—	—	—	15,226
21,734	—	—	—	75,473
$532,862	$660	$1,402	$11,033	$743,314

fund transferred $21.6 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 $19 million to the Economic Development Project Fund for bond debt service. All other transfers are made to finance various programs as authorized by the Legislature.

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, 2005, are as follows (expressed in thousands):

	Cash	Investments	Other	Totals
Special Revenue:				
Environmental Programs	$ 1,851	$ —	$ —	$ 1,851
Enterprise:				
West Virginia Lottery	—	1,665	—	1,665
Board of Risk and Insurance Management	6,419	20,417	42,247	69,083
	6,419	22,082	42,247	70,748
Internal Service:				
State Building Fund	25,314	—	—	25,314
Travel Management	316	—	—	316
	25,630	—	—	25,630
Discretely Presented Component Units:				
Economic Development Authority	11,859	—	—	11,859
Housing Development Fund	145,716	113,158	786,489	1,045,363
Parkways, Economic Development and Tourism Authority	3,040	35,818	—	38,858
Water Development Authority	4,588	15,707	240,233	260,528
Regional Jail Authority	308	—	—	308
Educational Broadcasting Authority	—	—	346	346
West Virginia State Rail Authority	550	—	—	550
Solid Waste Management Board	3,649	—	651	4,300
Racing Commission	2,390	—	—	2,390
	172,100	164,683	1,027,719	1,364,502
Total	$206,000	$186,765	$1,069,966	$1,462,731

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. 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 $41.9 million are advance deposits with insurance companies and $300,000 in receivables.

Internal Service Funds

The State Building Fund's restricted assets are held in trust primarily for the costs of asbestos removal. 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 $786 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 $240 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	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 815,212	$ 47,383	$ (15)	$ 862,580
Construction in Progress	950,722	442,547	(365,953)	1,027,316
Total Capital Assets, Not Being Depreciated	1,765,934	489,930	(365,968)	1,889,896
Capital Assets, Being Depreciated:				
Buildings and Improvements	645,036	36,852	(11,112)	670,776
Equipment	302,786	28,369	(23,450)	307,705
Infrastructure	7,652,609	289,748	—	7,942,357
Library Holdings	14,923	85	(14)	14,994
Land Improvements	10,212	1,323	—	11,535
Total Capital Assets, Being Depreciated	8,625,566	356,377	(34,576)	8,947,367
Less Accumulated Depreciation for:				
Buildings and Improvements	(271,947)	(15,680)	1,307	(286,320)
Equipment	(228,226)	(23,013)	22,052	(229,187)
Infrastructure	(2,850,343)	(242,037)	—	(3,092,380)
Library Holdings	(13,787)	(564)	14	(14,337)
Land Improvements	(3,642)	(596)	—	(4,238)
Total Accumulated Depreciation	(3,367,945)	(281,890)	23,373	(3,626,462)
Total Capital Assets Being Depreciated, Net	5,257,621	74,487	(11,203)	5,320,905
Governmental Activities Capital Assets, Net	$ 7,023,555	$ 564,417	$(377,171)	$ 7,210,801

Depreciation expense was charged to functions as follows:

Legislative	$ 32
Judicial	579
Executive	358
Administration	9,859
Commerce	2,913
Environmental Protection	428
Employment Programs	420
Education	763
Health and Human Resources	2,791
Military Affairs and Public Safety	5,077
Revenue	136
Transportation	258,242
Regulatory Boards and Commissions	292
Total Governmental Activities Depreciation Expense	$281,890

Business-type Activities
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 611	$ —	$ —	$ 611
Total Capital Assets, Not Being Depreciated	611	—	—	611
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,376	386	—	2,762
Equipment	18,468	2,821	(981)	20,308
Total Capital Assets, Being Depreciated	20,844	3,207	(981)	23,070
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,052)	(209)	—	(1,261)
Equipment	(11,031)	(2,474)	446	(13,059)
Total Accumulated Depreciation	(12,083)	(2,683)	446	(14,320)
Total Capital Assets, Being Depreciated, Net	8,761	524	(535)	8,750
Business-type Activities Capital Assets, Net	$ 9,372	$ 524	$(535)	$ 9,361

Depreciation expense was charged to functions as follows:

West Virginia Lottery	$ 1,930
Workers' Compensation Fund	596
Public Employees' Insurance Agency	34
Alcohol Beverage Control Administration	123
Total Business-type Activities Depreciation Expense	$ 2,683

Discretely Presented Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Discrete Component Unit Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 125,561	$ 6,352	$ (4,089)	$ 127,824
Construction in Progress	160,254	116,415	(85,133)	191,536
Total Capital Assets, Not Being Depreciated	285,815	122,767	(89,222)	319,360
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,479,235	115,962	(811)	1,594,386
Equipment	381,846	41,283	(36,149)	386,980
Infrastructure	990,432	27,132	(108)	1,017,456
Library Holdings	107,670	6,858	(614)	113,914
Land Improvements	21,148	806	(200)	21,754
Total Capital Assets, Being Depreciated	2,980,331	192,041	(37,882)	3,134,490
Less Accumulated Depreciation for:				
Buildings and Improvements	(455,958)	(34,922)	2,527	(488,353)
Equipment	(256,356)	(33,895)	23,358	(266,893)
Infrastructure	(489,804)	(35,410)	—	(525,214)
Library Holdings	(84,714)	(6,110)	630	(90,194)
Land Improvements	(9,195)	(1,326)	4	(10,517)
Total Accumulated Depreciation	(1,296,027)	(111,663)	26,519	(1,381,171)
Total Capital Assets Being Depreciated, Net	1,684,304	80,378	(11,363)	1,753,319
Discrete Component Unit Activities Capital Assets, Net	$ 1,970,119	$ 203,145	$(100,585)	$ 2,072,679

Depreciation expense was charged to Discrete Component Units as follows:

Economic Development Authority	$ 2,823
Parkways, Economic Development and Tourism Authority	29,778
Water Development Authority	34
Higher Education	71,023
Educational Broadcasting Authority	2,043
Jobs Investment Trust	62
West Virginia State Rail Authority	1,170
Solid Waste Management Board	9
Regional Jail Authority	4,572
Racing Commission	8
Public Defenders Corporation	141
Total Discrete Component Unit Depreciation Expense	$111,663

NOTE 10

LONG-TERM OBLIGATIONS

Primary Government:

Long-term obligations at June 30, 2005, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Balance June 30, 2004, As Adjusted	Additions	Reductions	Other Changes	Balance June 30, 2005	Amount Due Within One Year
Governmental Activities						
General Obligation Bonds:						
Transportation	$ 494,430	$321,405	$ (347,920)	$ —	$ 467,915	$ 19,920
Premium/(Discount)	2,781	30,000	(695)	—	32,086	—
Total Transportation	497,211	351,405	(348,615)	—	500,001	19,920
WV Infrastructure and Jobs Development Council	298,182	4,742	(4,435)	—	298,489	8,460
Total General Obligation Bonds	795,393	356,147	(353,050)	—	798,490	28,380
Revenue Bonds:						
School Building Authority	275,950	141,600	(31,585)	—	385,965	18,603
Premium/(Discount)	(925)	5,146	(458)	—	3,763	—
Total School Building Authority	275,025	146,746	(32,043)	—	389,728	18,603
Education	2,183	—	(55)	—	2,128	59
WV Infrastructure and Jobs Development Council	89,550	—	(840)	—	88,710	1,295
(Discount)	(321)	—	9	—	(312)	—
Total WV Infrastructure and Jobs Development Council	89,229	—	(831)	—	88,398	1,295
Economic Development Project Fund	249,895	—	(13,890)	—	236,005	7,165
Premium/(Discount)	(1,398)	—	70	—	(1,328)	—
Total Economic Development Project Fund	248,497	—	(13,820)	—	234,677	7,165
Education, Arts, Sciences, & Tourism Fund	55,855	—	(7,025)	—	48,830	7,375
Total Revenue Bonds	670,789	146,746	(53,774)	—	763,761	34,497
Capital Leases (See Note 11)	300,227	71,761	(17,309)	(342)	354,337	16,419
Other Obligations:						
Accrued and Other Liabilities (See Note 15)	301,973	198,434	(8,852)	—	491,555	21,529
Compensated Absences	274,406	3,050	(1,357)	—	276,099	64,674
Net Pension Obligation (See Note 12)	279,958	—	(3,783)	—	276,175	—
Total Other Obligations	856,337	201,484	(13,992)	—	1,043,829	86,203
Total Governmental Activities Long-Term Obligations	$2,622,746	$776,138	$ (438,125)	$(342)	$2,960,417	$165,499
Business-type Activities						
Accrued Tuition Contract Benefits	$ 105,341	$ 7,504	$ (6,857)	$ —	$ 105,988	$ 6,855
Insurance and Compensation Benefits	4,383,452	552,335	(1,033,577)	—	3,902,210	557,303
Liabilities Payable from Restricted Assets	6,781	78	(1,323)	—	5,536	900
Compensated Absences	7,983	702	(62)	—	8,623	2,493
Total Business-type Activities Long-Term Obligations	$4,503,557	$560,619	$(1,041,819)	$ —	$4,022,357	$567,551

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, $3.9 million of internal service funds compensated absences are included in the governmental amounts.

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, 2005, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s)%	Balance
Transportation Bonds:			
Payable from State Road Fund,			
Issued Under:			
1973 Amendment	2006	5.625-6.10	$ 1,480
1996 SAFE Roads Amendment	2025	3.00-5.75	498,521
			500,001
Infrastructure Bonds:			
Payable from dedicated severance tax revenues	2027	4.30-8.00	298,489
Total			$798,490

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2005, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2006	$ 28,323	$ 34,348	$ 62,671
2007	30,357	33,521	63,878
2008	40,918	32,578	73,496
2009	42,404	31,096	73,500
2010	43,956	29,624	73,580
2011-2015	207,843	122,194	330,037
2016-2020	162,989	85,535	248,524
2021-2025	176,805	58,228	235,033
2026-2030	32,809	14,169	46,978
	766,404	441,293	1,207,697
Premium	32,086	—	32,086
Total	$798,490	$441,293	$1,239,783

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, 2005:

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, 2005, were as follows (expressed in thousands):

	Issue Date	Final Maturity Date	Interest Rate(s)%	Balance
School Building Authority	1990-2004	2022	2.75-7.00	$389,728
Department of Education	1996	2025	5.75-6.00	2,128
WV Infrastructure and Jobs Development Council	2001-2004	2039-2040	2.5-5.75	88,398
Education, Arts, Sciences, and Tourism Fund	1997	2011	5.00-5.50	48,830
Economic Development Project Fund	2004	2026	1.20-6.07	234,677
Total				$763,761

Future amounts required to pay principal and interest on revenue bonds at June 30, 2005, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2006	$ 34,497	$ 38,034	$ 72,531
2007	39,120	36,599	75,719
2008	40,771	34,866	75,637
2009	44,610	32,982	77,592
2010	45,049	30,788	75,837
2011-2015	205,203	122,713	327,916
2016-2020	160,237	80,636	240,873
2021-2025	118,373	38,561	156,934
2026-2030	38,703	13,212	51,915
2031-2035	17,620	7,035	24,655
2036-2040	17,455	2,053	19,508
	761,638	437,479	1,199,117
Premium	2,123	—	2,123
Total	$763,761	$437,479	$1,201,240

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)

	Balance June 30, 2004	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2005	Amount Due Within One Year
Revenue Bonds:						
Housing Development Fund	$ 687,155	$125,110	$ (104,365)	$ —	$ 707,900	$ 73,185
Parkways, Economic Development and Tourism Authority	109,934	—	(6,240)	1,404	105,098	3,047
Water Development Authority	206,634	37,775	(4,065)	1,151	241,495	3,983
Higher Education	408,410	420,740	(94,782)	—	734,368	18,664
Regional Jail Authority	97,810	—	(3,760)	—	94,050	3,940
Total Discretely Presented Component Unit Revenue Bonds	$1,509,943	$ 583,625	$ (213,212)	$2,555	$1,882,911	$102,819
Capital Leases:						
Economic Development Authority	$ 13,276	$ —	$ (1,406)	$ —	$ 11,870	$ 875
Higher Education	33,471	1,526	(6,034)	(167)	28,796	5,838
Educational Broadcasting Authority	97	—	(97)	—	—	—
Job Investment Trust	14,454	3,055	—	1,144	18,653	—
West Virginia State Rail Authority	1,585	—	(345)	(16)	1,224	387
Public Defender Corporation	53	165	(6)	—	212	14
Total Discretely Presented Component Unit Capital Leases	$ 62,936	$ 4,746	$ (7,888)	$ 961	$ 60,755	$ 7,114

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 non-toll 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	1992-2005	2039	3.00 - 6.55	$ 707,900
Parkways, Economic Development and Tourism Authority	1993-2003	2019	3.50 - 7.00	105,098
Water Development Authority	1995-2005	2044	2.00 - 6.375	241,495
Higher Education	1969-2004	2034	4.50 - 6.26	734,368
Regional Jail Authority	1998	2021	4.31 - 5.35	94,050
Total Revenue Bonds				$1,882,911

Future amounts required to pay principal and interest on revenue bonds of the discretely presented component units at June 30, 2005, were as follows (expressed in thousands):

Year Ended June 30	Principal	Interest	Total
2006	$ 105,547	$ 96,473	$ 202,020
2007	56,851	92,951	149,802
2008	63,689	84,121	147,810
2009	62,565	81,050	143,615
2010	59,434	78,276	137,710
2011-2015	313,156	369,193	682,349
2016-2020	350,881	293,483	644,364
2021-2025	334,358	209,130	543,488
2026-2030	292,483	130,869	423,352
2031-2035	217,639	43,539	261,178
2036-2040	29,480	6,302	35,782
2041-2045	9,745	1,199	10,944
	1,895,828	1,486,586	3,382,414
Discount	(22,388)	—	(22,388)
Premium	9,471	—	9,471
Total	$1,882,911	$1,486,586	$3,369,497

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 $570,000 in 2005 and $568,000 in 2004. 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% 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 $7,066,961 as of June 30, 2005. 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, 2005, 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 Investor's Service as of June 30, 2005.

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, 2005. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2005, the BMA rate was 2.28%, whereas 67% of the LIBOR was 2.59%.

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, 2005, 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.

	Variable-Rate Bonds			
Year Ended June 30	Principal	Interest	Interest Rate Swap, Net	Total
2006	$ 200	$ 1,221	$ 1,780	$ 3,201
2007	300	1,458	1,478	3,236
2008	3,900	1,451	1,453	6,804
2009	4,300	1,362	1,366	7,028
2010	4,300	1,263	1,267	6,830
2011-2015	25,400	4,700	4,725	34,825
2016-2020	25,100	1,477	1,440	28,017
	$63,500	$12,932	$13,509	$89,941

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, 2005, 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, 2005, is approximately $840 million, $100 million, and $759 million for HFA, PEA, and EDA, respectively.

Included in the $759 million EDA current value is $329 million related to bonds issued by EDA specifically for the construction of correctional, public safety, and other State office facilities. 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, multi-family 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, 2005, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

Current Year Extinguishment of Debt

Department of Transportation

During the fiscal year ended June 30, 2005, the Department of Transportation refinanced $321,405,000 in general obligation bonds to advance-refund $319,860,000 of outstanding 1998, 1999 and 2000 Series bonds. The net proceeds of $351,405,000 (after payment of $1,606,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government State and Local Government Series securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refinanced portions of the 1998, 1999, and 2000 Series bonds. As a result, the refinanced portion of the 1998 and 1999 Series bonds along with all 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statements of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $1,545,000. This amount is being netted against the new debt and amortized over the remaining useful life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by $19,689,000 and resulted in an economic gain of $18,821,000.

Housing Development Fund

During the fiscal year ended June 30, 2005, the Housing Development Fund redeemed $84,315,000 of bonds at a redemption price which approximated their carrying value. The impact of the early redemption on the financial statements was not material and there was no debt reissued.

Higher Education

The Series 2004 Series B Higher Education Facilities Bonds were issued in August 2004 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. These bonds were issued to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges. In addition, the 2004 Series B Bonds provided funding for a refinancing of a portion of the Series 1996 Bonds outstanding principal amount of $9,365,000. The amount refinanced was $9,615,000 and with the reduced interest rates will provide a total cash savings of $738,550. The economic gain of the refinancing was approximately $574,486.

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, 2005, bonds of the discretely presented component units in the amount of $77,520,000 are considered defeased.

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 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.

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 and expenditures 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, 2005, (expressed in thousands):

	Primary Government	
	Governmental Activities	
Asset Type	Assets Acquired by Capital Lease	Accumulated Depreciation
Land	$ 3,063	$ —
Buildings and Improvements	133,624	19,017
Machinery and Equipment	12,261	6,801
Infrastructure	3,107	932
Total	$152,055	$26,750

Future minimum commitments under capital leases as of June 30, 2005, were as follows (expressed in thousands):

	Capital Leases		
Year Ended June 30	Governmental Activities	Discretely Presented Component Units	Total
2006	$ 33,420	$ 8,436	$ 41,856
2007	32,171	8,188	40,359
2008	29,405	6,811	36,216
2009	28,548	4,723	33,271
2010	25,069	2,563	27,632
2011 - 2015	121,823	40,999	162,822
2016 - 2020	127,575	3,637	131,212
2021 - 2025	114,760	3,382	118,142
2026 - 2030	78,910	267	79,177
2031 - 2035	5,125	—	5,125
Total Minimum Lease Payments	596,806	79,006	675,812
Less: Interest	(242,469)	(18,251)	(260,720)
Present Value of Future Minimum Lease Payments	$ 354,337	$ 60,755	$ 415,092

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, 2005, was $27.5 million. Future minimum commitments under operating leases as of June 30, 2005, were as follows (expressed in thousands):

	Operating Leases			
Year Ended June 30	Governmental Activities	Business-type Activities	Discretely Presented Component Units	Total
2006	$10,305	$2,926	$11,593	$ 24,824
2007	7,455	2,167	6,442	16,064
2008	5,858	1,064	4,565	11,487
2009	4,524	304	4,225	9,053
2010	3,240	220	2,861	6,321
2011-2015	10,399	357	11,475	22,231
2016-2020	4,214	—	9,880	14,094
2021-2025	1,931	—	9,880	11,811
2026-2030	155	—	9,880	10,035
2031-2035	—	—	2,230	2,230
Total Minimum Lease Payments	$48,081	$7,038	$73,031	$128,150

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, 2005, amounted to approximately $276 million, which is a decrease of approximately $4 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, 2005, was 524, including 104 cities and towns, 365 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, 2004, actuarial valuations are as follows:

The Public Safety Death, Disability, and Retirement Fund valuation incorporated changes on mortality, salary scale, and decrement assumptions to reflect the most recent experience study.

The State Police Retirement System incorporated changes on the salary scale and decrement assumptions to reflect the most recent experience study.

The Judges' Retirement System incorporated changes on interest rate (from 6.5% to 7.5%), salary scale, pre-retirement decrements, retirement decrements and post-retirement mortality assumptions.

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, 2005:

Statutory Contribution Rates as a Percent of Covered Payroll

System	Member	Employer
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	9.0%	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.

Pension Investments

Following is a summary of investment holdings by plan. Substantially all of the following investment pools are in excess of 5% of total investments for all plans as of June 30, 2005, (expressed in thousands):

	PERS	TRS	PSDDRF	SPRS	DSRS	JRS
Large Cap Equity	$ 861,722	$ 404,839	$ 28,669	$ 6,376	$17,197	$19,018
Non-Large Cap Equity	523,160	232,606	17,408	3,756	10,344	11,477
International Equity	691,254	308,684	22,791	4,872	13,558	14,768
Fixed Income	1,302,812	575,648	41,558	9,793	26,499	29,123
Short-Term Fixed Income	21,439	76,461	250,783	500	614	371
Total	$3,400,387	$1,598,238	$361,209	$25,297	$68,212	$74,757

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, 2005, (expressed in thousands):

American Funds Bond Fund A	$ 43,676
American Funds Growth Fund A	93,506
American Funds Wash Mutual A	55,807
Federated Max Cap Institutional	50,550
Franklin Income Fund A	70,163
Valic Fixed Annuity Option	241,681
Vanguard Money Market Prime Portfolio	38,721
Other (Less than 5%)	35,785
Total	$629,889

Annual Pension Cost, Funding and Net Pension Obligation

The State's contributions to PERS for the years ended June 30, 2005, 2004, and 2003, were $83,406,764, $81,333,203, and $72,308,995, 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):

	TRS	PSDDRF	SPRS	JRS
Annual required contribution (ARC)	$334,533	$27,953	$ 1,588	$ 4,398
Interest on net pension obligation	16,117	4,711	(149)	169
Adjustment to ARC	(13,224)	(4,525)	169	(247)
Annual pension cost (APC)	$337,426	$28,139	$ 1,608	$ 4,320
Contributions made	$339,724	$27,367	$ 1,702	$ 6,758
Percentage of APC Contributed	100.68%	97.26%	105.85%	156.44%
Net pension obligation (asset), July 1, 2004	$214,891	$62,810	$(1,982)	$ 2,257
Increase (decrease) in net pension obligation (asset)	(2,298)	772	(94)	(2,438)
Net pension obligation (asset), June 30, 2005	$212,593	$63,582	$(2,076)	$ (181)

Three-Year Trend Information

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

	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
TRS				
	2005	$337,426	100.68%	$ 212,593
	2004	$336,043	94.07%	$ 214,891
	2003	$299,307	91.61%	$ 194,969
PSDDRF				
	2005	$ 28,139	97.26%	$ 63,582
	2004	$ 28,577	83.75%	$ 62,810
	2003	$ 26,939	81.43%	$ 58,165
SPRS				
	2005	$ 1,608	105.85%	$ (2,076)
	2004	$ 1,360	111.76%	$ (1,982)
	2003	$ 1,185	109.11%	$ (1,822)
JRS				
	2005	$ 4,320	156.44%	$ (181)
	2004	$ 6,618	80.52%	$ 2,257
	2003	$ 6,416	85.72%	$ 968

Actuarial Methods and Assumptions

	TRS	PSDDRF	SPRS	JRS
Valuation date	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004
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	N/A	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	.5%-2.5%	1.75%-3.00%	1.75%-3.00%	4.50%
Postemployment benefit increases	None	3.75% Annual cost of living adjustment	1% Annual cost of living adjustment	4.50%

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 22,950 and 21,200 members in the TDCRS plan at June 30, 2005 and 2004, 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, 2005, the approximate payroll of State employees covered by TDCRS was $630 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 $26.6 million and $45.2 million, respectively, or 4.22% and 7.17% 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, 2005, contributions were approximately $25.2 million from the covered employees and approximately $25.2 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 in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their heath 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.

An actuarial study on the conversion of sick leave was conducted as of June 30, 2005. The study reflected a discount rate used to calculate the net present value of the cash flows generated from the retiree conversions of 5.63%. 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, 2005, related to retiree premium sick leave conversion, were approximately $13.8 million for approximately 4,600 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 31,500 retirees meet those eligibility requirements at June 30, 2005. 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, 2005, expenditures/ expenses for such benefits approximated $106 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 amount of settlements has 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. 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.

In December 2001, the West Virginia Legislature passed House Bill 601 which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies not renewing insurance policies for health care providers on a national level, and in the State. On July 1, 2004, all physicians novated to the newly formed West Virginia Physicians' Mutual Insurance Company (WVPMIC).

BRIM still maintains the hospital and facilities in the House Bill 601 Program that did not novate to the WVPMIC. However, all policies have been terminated as of June 30, 2004, and the program is in run-off mode only for existing claims and for any claims that may be submitted on any tail policies that were purchased.

Pursuant to the West Virginia Physicians' Mutual Insurance Company Act, the Legislature authorized the loan of $24 million from the West Virginia Tobacco Medical Trust Fund solely for the company's use as initial capital and surplus. A 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.

The Insurance Commission is providing specific insurance taxes as repayment to the Tobacco Trust Fund until such time as the WVPMIC is able to repay the loan. A due to the Tobacco Trust Fund of $20.8 million is reflected in the general fund and a due from other funds in the same amount is recorded in the Tobacco Trust Fund for the balance due at June 30, 2005, at the governmental fund level.

In March 2004, the West Virginia Legislature passed House Bill 4740 creating a Patient Injury Compensation Fund. The purpose of this fund is to provide fair and reasonable compensation to claimants in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of previously enacted tort reforms. This fund will provide relief to claimants whose damages were limited because of caps for trauma care or as a result of joint and several liability. BRIM will serve as a third-party administrator for this fund. The capitalization of the fund will come from the State's tobacco settlement fund. The activity for this fund is reflected in the fiduciary funds of the State's financial statements.

Public Employees' Insurance Agency

This agency 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 to be covered 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 risk pool 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 221,000 individuals, including participants and dependents.

Workers' Compensation Fund

The Workers' Compensation Commission (WCC) is an agency of the State. West Virginia is one of five states operating an exclusive State-managed workers' compensation insurance fund (WCF), which means that private insurance companies cannot offer coverage to employers. In accordance with the Workers' Compensation Law, generally, every employer who has a payroll must have coverage except for employers in the agriculture industry with five or fewer employees, volunteer organizations, domestic workers and employers qualifying for territorial coverage. WCF's general objective is to provide a system of compensation for injury sustained in the course of, and growing out of, employment.

The Workers' Compensation Board of Managers (the Board of Managers) oversees the workers' compensation system. Among the responsibilities of the Board of Managers, as related to WCC, are: recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of WCC; approving premium rates; analyzing opportunities for internal operational improvements; establishing and monitoring performance measurements; making recommendations to the Governor and the Legislature related to the second-injury fund, and establishing vocational standards to be utilized in the decisions on permanent total disability awards; and considering such other matters related to WCC as any member of the Board of Managers desires.

During the three years ended June 30, 2001, 2002, and 2003, certain negative claims payment trends developed. As a result, a special session was held in June 2003. During that session, the West Virginia Legislature enacted "Senate Bill 2013" and several companion pieces of legislation. There were major changes made as a result of Senate Bill 2013 in fiscal year 2004.

State management believes that the formation of an employers' mutual insurance company, to replace the WCF, is in the best interest of the public and economic development in the State. Accordingly, the new administration, under the leadership of Governor Joe Manchin III, called a special session of the Legislature and passed Senate Bill 1004, effective February 16, 2005, creating the means to transition the WCF into a domestic employers' mutual insurance company, called BrickStreet Mutual Insurance (BrickStreet).

The legislation defined the requirements for the formation of BrickStreet, whose operations began January 1, 2006, and provides for the regulation and phasing in of a competitive workers' compensation insurance market beginning July 1, 2008. Beginning July 1, 2008, the worker's compensation insurance market will be opened to all private carriers who have been approved by the Insurance Commissioner to do business in West Virginia, and private carriers' rates will be phased in over two years, allowing for a variance from the base rates established by the Insurance Commissioner. Beginning July 1, 2010, and thereafter, the Insurance Commissioner shall set base rates for approved classifications in accordance with rules established in the State code.

Senate Bill 1004 established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including forty-five million dollars annually from the state excess lottery revenue, certain funds to be received from the tobacco master settlement agreement, and new and additional severance taxes imposed, beginning December 1, 2005. The net proceeds from collection of these monies are to be dedicated to paying down the unfunded liability in the WCF, or paying debt service on bonds, which may be sold in the future to raise funds to pay down the unfunded liability in the WCF.

With the passage of Senate Bill 1004, several other new funds were established in the State treasury. The Executive Director of the WCC had full authority to administer the funds until termination of the WCC.

The "workers' compensation old fund" (Old Fund) was created for those funds transferred from the workers' compensation fund 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, which have been recognized by the WCC in its actuarially determined liability number as of June 30, 2005. The "workers' compensation new fund" (New Fund) was created to transfer funds, upon termination of the Commission, to the successor organization of the WCC. The New Fund liabilities consisted 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, will be incurred by the WCF and new fund liabilities will begin with claims payments becoming due and owing on said claims on or after January 1, 2006.

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. BrickStreet is administering these funds for the same term and administrative fee as provided in the administration of the Old Fund.

The uninsured employer fund consists of funds the Insurance Commissioner will assess each private carrier and all self-insured employers. The Insurance Commissioner will immediately notify the employer of any claim received and the employer has the burden of proving that it provided mandatory industrial insurance coverage for the employee or that it was not required to maintain industrial insurance for the employee. The Insurance Commissioner has the right to recover all payments made on behalf of an employer that is found to be liable, including interest on any amounts paid. Administrative fines may be imposed if an employer fails to provide mandatory coverage.

The self-insured guaranty risk pool consists of those funds transferred to it from the guaranty pool created pursuant to Code of State Rules Chapter 85 Section 19 (85 CSR §19) (2004) and any future funds collected through continued administration of that exempt legislative rule as administered by the Insurance Commissioner.

The self-insured security risk pool consists of those funds paid into it through the Insurance Commissioner's administration of 85 CSR §19. The obligations of the fund shall be as provided in 85 CSR §19: The liabilities of the self-insured security risk pool will be limited to those self-insured employers who default on their claims obligations after the termination of the WCC.

The private carrier guaranty fund consists of all unencumbered funds remaining in the mutualization transition fund upon the termination of the WCC. The fund will provide benefits to those employees whose employers' private carrier is found to be insolvent by a court of competent jurisdiction in the insurer's state of domicile, or has otherwise defaulted on its payment obligations and is subject to an administrative action by the Insurance Commissioner.

The assigned risk fund will consist of assessments charged to each private carrier and all self-insured employers and collected by each private carrier and remitted to the Insurance Commissioner. The liabilities of the assigned risk fund will be limited to the claims of those employers who have been assigned as adverse risk, beginning on or after July 1, 2008. The coverage provided by the assigned risk fund will be pursuant to a pooling arrangement managed by the Insurance Commissioner, who may contract with any third party, including any private carrier, to administer this pooling arrangement.

On March 1, 2005, $35 million dollars was transferred from the WCF into the "mutualization transition fund" as mandated by Senate Bill 1004. Disbursements are made from the mutualization transition fund upon requisitions signed by the executive director, and, upon termination of the WCC, by the Insurance Commissioner, and shall be reasonably related to the legal, operational, consultative and human resource related expenses associated with the establishment of BrickStreet and the transferring of personnel from the WCC to BrickStreet. Approximately $2.4 million was paid or is payable from the mutualization transition fund for expenses related to the formation of BrickStreet that had been incurred as of June 30, 2005. For financial statement presentation purposes, the expenditures incurred and the remaining $32.6 million cash balance of the mutualization transition fund are included as part of the WCF. All unencumbered funds remaining in the mutualization transition fund at termination of the WCC were transferred into the private carrier guaranty fund.

Upon the signing of a proclamation by the Governor on December 8, 2005, the WCC was terminated and a portion of the WCC's assets transferred to BrickStreet, including funding for BrickStreet's initial capital, as well as the transfer of employees to the company, the Industrial Council and the Insurance Commissioner. Upon the termination of the WCC, the WCC's powers were transferred to the Industrial Council, established by Senate Bill 1004, to assist the Insurance Commissioner in the regulation of the State 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.

An affiliated company, BrickStreet Administrative Services (BAS), became the administrator of the Old Fund, beginning January 1, 2006, and thereafter for seven years, and will have all administrative and adjudicatory authority previously vested in the WCC in administering old law liabilities and otherwise processing and deciding old law claims. BAS will be paid a monthly administrative fee of five percent of claims paid each month for the administration of the Old Fund through December 31, 2010, and four percent of claims paid each month for the administration of the Old Fund thereafter through December 31, 2012. BAS's administrative duties will include, but are not limited to, receipt of all claims, processing the payment of claims, and ensuring, through the selection and assignment of counsel, that claims decisions are properly defended. Bids for the contract for the administration of the Old Fund after the seven-year period will be subject to the regular State purchasing procedures.

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 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	
	2005	2004	2005	2004	2005	2004
Unpaid claims and claims adjustment expense liability, beginning of year	$219,328	$184,287	$ 61,690	$ 60,955	$4,083,700	$4,203,300
Incurred claims and claims adjustment expense:						
Provision for insured events of the current fiscal year	65,669	93,682	486,666	431,397	307,577	353,350
Increase (decrease) in provision for insured events of prior fiscal years	(8,994)	(7,560)	(3,460)	(4,730)	(383,100)	(35,600)
Amortization of discount	—	—	—	—	192,139	196,173
Total incurred claims and claims adjustment expense	56,675	86,122	483,206	426,667	116,616	513,923
Payments:						
Claims and claims adjustment expense attributable to insured events of the current fiscal year	9,134	13,799	426,562	379,101	72,641	70,956
Claims and claims adjustment expense attributable to insured events of the prior fiscal year	49,117	37,282	52,935	46,831	487,775	566,567
Total payments	58,251	51,081	479,497	425,932	560,416	637,523
Less liability assumed by WVPMIC	(32,683)	—	—	—	—	—
Change in provision for Disabled Workers' Relief Fund receivable	—	—	—	—	(3,600)	4,000
Total unpaid claims and claims adjustment expense liability, end of year	$185,069	$219,328	$ 65,399	$ 61,690	$3,636,300	$4,083,700

Neither BRIM nor PEIA discount their estimated claims liability. At June 30, 2005 , the total undiscounted claims liability for WCF approximated $5.93 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 $2 billion to a claims liability of approximately $5.63 billion, and the total deficit would have increased to approximately $4.32 billion at June 30, 2005.

WCC 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 WCC's financial statements.

Fund Deficit and Deficit Funding Plan for Workers' Compensation

Senate Bill 1004 addressed the substantial deficit that continues to exist in the WCF, and identified sources of revenue to address the immediate and long-term solvency of the fund and to resolve the financial crisis caused by the deficit.

Due to a history of recurring losses and a significant accumulated deficit, the West Virginia Legislature enacted Senate Bill 2013, which made major changes to the Workers' Compensation laws that became effective in fiscal year 2004. The passage and implementation of Senate Bill 2013 has resulted in improvements in the operations of the WCC and has resulted in a significant reduction in the net cash outflows. Despite this legislative action and management's efforts, the deficit continues to have a long-term negative impact on the economy.

However, with the passage of Senate Bill 1004, a framework for the privatization of workers' compensation insurance in West Virginia was established. It mandates a timeline for the transition to an open competitive market by July 1, 2010. The legislation defines the requirements for the formation of a domestic employers' mutual insurance company (BrickStreet) by January 1, 2006, and provides for the regulation and phasing in of a competitive workers' compensation insurance market beginning July 1, 2008.

As a result of Senate Bill 1004, 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 state workers' compensation system.

Disbursements from the Old Fund, created by Senate Bill 1004, 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, which have been recognized by the WCC in its actuarially determined liability number as of June 30, 2005.

Senate Bill 1004 further establishes a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including $45 million annually from the state excess lottery revenue, certain funds to be received from the tobacco master settlement agreement, and for the deposit of new and additional severance taxes imposed, beginning December 1, 2005. The net proceeds from collection of these monies are to be dedicated to paying down the unfunded liability in the workers' compensation fund, or paying debt service on bonds sold to raise funds to pay down the unfunded liability in the WCF.

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.

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Public Employees' Insurance Agency
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Charleston, West Virginia 25305

Workers' Compensation Fund
c/o Insurance Commission
1124 Smith Street
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NOTE 15

COMMITMENTS AND CONTINGENCIES

Environmental Protection Claims

The State maintains several environmental protection programs including a bonding program for coal operators for mine reclamation, an abandoned oil and gas well bonding program, and a Landfill Closure Assistance Program (LCAP). Under such programs, the State charges various fees, premiums, 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. The LCAP program was established to provide assistance with closure costs to the landfill owners who do not have the financial viability to meet closure regulations.

The insurance fund for the operators of the underground storage tanks has discontinued accepting new operators into the fund. In a lawsuit filed against the fund, the court ordered the State to distribute 75% of the fund balance on a pro rata basis, according to the amounts approved by the Underground Storage Tank Advisory Committee and the Department of Environmental Protection (DEP). The remaining 25% of the fund, as well as any subsequent interest, and any other amounts that may come into the account, are to be reserved for disputed amounts. DEP is authorized to use up to $5,000 of this reserve to pay for the services of an experienced insurance adjuster for the resolution of disputed amounts. In order to fulfill all claims by the end of fiscal year 2005, an additional $1.4 million was allocated from other DEP funds. The court also found that $15 million was a reasonable amount to cover anticipated future demands against the insurance fund, to be appropriated as the Legislature may deem fit, but the court may not order the Legislature to make an appropriation. As of June 30, 2005, $5 million of this amount has been recorded as a liability in the accompanying financial statements.

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.

To date, the revenues generated, including the forfeited bonds, have been less than the State's estimate of its claims liability for such programs, including the estimated cost of claims that have been incurred but not settled and claims that are considered probable.

Management has estimated the total cost of these reclamation efforts to approximate $394.7 million at June 30, 2005, with approximately $294 million related to the special reclamation obligation discounted using a 2.5% discount rate. Approximately $25.9 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 $369 million obligation is reported as a noncurrent liability in the governmental activities on the statement of net assets. In prior years, this estimated special reclamation obligation was recorded on an undiscounted basis. In 2005, DEP had an actuarial study completed for the Special Reclamation Fund, which included the estimated cash flows information necessary for discounting. Given the long-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 was inseparable from the change in accounting estimate. Accordingly, the impact of discounting has been recognized in the current period as part of the change in estimate. If discounting was not used, the estimated special reclamation liability recorded at June 30, 2005, would have increased by $75 million to approximately $369 million and the total liability would have increased to $460 million. The estimated undiscounted special reclamation obligation at June 30, 2004, approximated $158 million.

As part of the noncurrent liability, 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, which represent 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. In previous years, approximately 6,000 wells from a pre-1929 study were included in the oil and gas liability of Class I wells. In 2004, management obtained additional information and challenged the classification of pre-1929 wells as Class I. Accordingly, they determined that the remaining pre-1929 wells should no longer be classified as Class I and that all wells which presented an immediate environmental threat by any means of detection, in the 75 years that permits have been required, have been moved to the actual inventory of post-1929 wells and will be plugged as soon as funds are available. The State has also made a distinction between orphaned and abandoned wells, since all wells that are abandoned do not necessarily become a liability to the State.

The State also currently accrues for active water treatment sites under the special reclamation liability. The State's estimated liability for these water treatment sites assumes a 20-year treatment period until the sites are properly reclaimed. 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.

In September 2001, the Legislature increased the tax on clean mined coal from three cents to fourteen cents per ton, to be reduced to seven cents per ton after no more than 39 months. The tax has been extended until September 30, 2006. It can only be reduced if the Special Reclamation Fund has sufficient funds to meet the State's reclamation responsibilities. In addition, the bonds required of operators have been increased. 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.

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 $210,000 over the next 26 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 $685,000.

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 $369 million in environmental protection claims, the State has recorded an obligation in the amount of $122.8 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 $46 million. As of June 30, 2005, a $46 million liability related to this matter has been accrued.

A lawsuit has been filed against the Consolidated Public Retirement Board (CPRB) in which PERS plan participants seek to have lump-sum payments received for unused leave included within their PERS final average salary calculations. The CPRB denied the requested relief, and the participants appealed. By Order of October 8, 2004, the CPRB's administrative decision in this matter was reversed. The CPRB will be filing a petition for review of the Circuit Court's ruling with the West Virginia Supreme Court of Appeals on or before February 8, 2005. The Supreme Court has granted the CPRB's motion to stay execution of the Circuit Court's ruling pending resolution of the anticipated appeal. The financial impact of a judicial ruling in favor of the petitioners will have to be actuarially determined, inasmuch as the relief sought is an increase in the petitioners' and other similarly situated PERS members' monthly annuity benefits resulting from the inclusion of additional compensation in their final average salary and benefit annuity calculations.

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.

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 Board of Public Works and the State Tax Department involving tax years 1998 through 2005. Collectively the estimated exposure for these cases is approximately $157.8 million. These matters are being vigorously defended but recovery by the claimants is possible. As of June 30, 2005, a $25.8 million liability has been accrued related to these matters.

WCF has an unsecured contingent liability for self-insurers who have not defaulted as of June 30, 2005, approximately $13 million discounted at 5%. It is not possible to estimate the likelihood of future self-insurer defaults; therefore, there has been no provision for future self-insurer defaults in the estimated liabilities for unpaid claims and claims adjustment expenses.

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 results of operations 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. 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.

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 results of operations 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)

	Amount Committed	Commitment
Governmental Funds:		
Transportation	$585,735	Construction
School Building Authority	183,263	Acquisition, construction and maintenance grants to county school boards
West Virginia Infrastructure and Jobs Development Council	41,784	Funding of water and economic development projects
Enterprise Funds:		
Water Pollution Control Revolving Fund	39,102	Committed for loans
Drinking Water Treatment Fund	15,306	Lending consistent with Safe Drinking Water Act
Discretely Presented Component Units:		
Economic Development Authority	40,194	Committed for loans
Parkway, Economic Development, and Tourism Authority	6,774	Turnpike improvements
Regional Jail Authority	629	Construction
Higher Education	58,700	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 26 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 $9.7 million in 2005. 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 $11.9 million at June 30, 2005, to fund the program obligations. Subsequent to year-end, the program received $37.9 million from the Lottery.

NOTE 16

SUBSEQUENT EVENTS

On July 1, 2005, the West Virginia Housing Development Fund (HDF) redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of $37,345,000, which included the full redemption of Series 2002 D and Series 2002 E at par. On July 15, 2005, the Housing Finance Program Bonds 1993 Series A and the 1994 Series A and B were fully redeemed at 101%. On August 1, 2005, the HDF redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of $14,095,000. On September 1, 2005, various Housing Finance Bonds were redeemed in advance of the scheduled maturities at a par amount of $2,185,000.

At its September 16, 2005, meeting, the WV Water Development Authority Board authorized the refunding of three Loan Program II bond issues in the coming year to obtain debt service savings. The proceeds of the 2005 Series A-II Bonds will be used to current refund the Water Development Authority's (WDA) 1995 Series A Bonds, which are outstanding in the principal amount of $20,630,000. The proceeds of the 2005 Series B-II Bonds will be used to current refund WDA's 1995 Series B Bonds, which are outstanding in the principal amount of $12,345,000. The proceeds of the 2005 Series C-II Bonds will be used to advance refund WDA's 1999 Series A Bonds, which are outstanding in the principal amount of $39,325,000. Additionally, the Board authorized the WDA to issue Loan Program IV new money revenue bonds not to exceed $15,000,000. The proceeds of these 2005 Series B-IV Bonds will be used to provide loans to local government agencies for the construction and permanent financing for water development projects.

The Governor signed an executive order to freeze the variable rate component of the motor fuel excise tax at its current rate ($.065 / gallon). The Department of Revenue had previously projected that the rate would increase to $.09 /gallon on January 1, 2006, which was estimated to generate at least an additional $35 million in revenue for the State Road Fund.

The 2005 West Virginia State Legislature passed Senate Bill 558 creating the West Virginia Board of Treasury Investments effective July 8, 2005, for the purpose of overseeing the assets of the five pools comprising the Consolidated Fund and the assets of each of the participant directed accounts. The IMB transferred approximately $2.2 billion in assets from these pools and accounts to the West Virginia Board of Treasury Investments on July 8, 2005. The Board consists of five members: the Governor, the State Treasurer, and the State Auditor or their designees and two persons appointed by the Governor subject to the advice and consent of the Senate.

On September 7, 2005, the Board of Directors of the West Virginia University Research Corporation (the Corporation) approved a borrowing plan by the Corporation of up to $24.4 million to finance certain improvements at West Virginia University's Health Sciences Center. The West Virginia Housing Development Fund, the West Virginia Economic Development Authority and the West Virginia Infrastructure and Jobs Development Council have accepted the Corporation's application for construction loans and have issued commitment letters to the Corporation. The West Virginia University Board of Governors has approved the Corporation entering into such a transaction. The Corporation is required to execute and deliver construction loan and pledge agreements to the lenders.

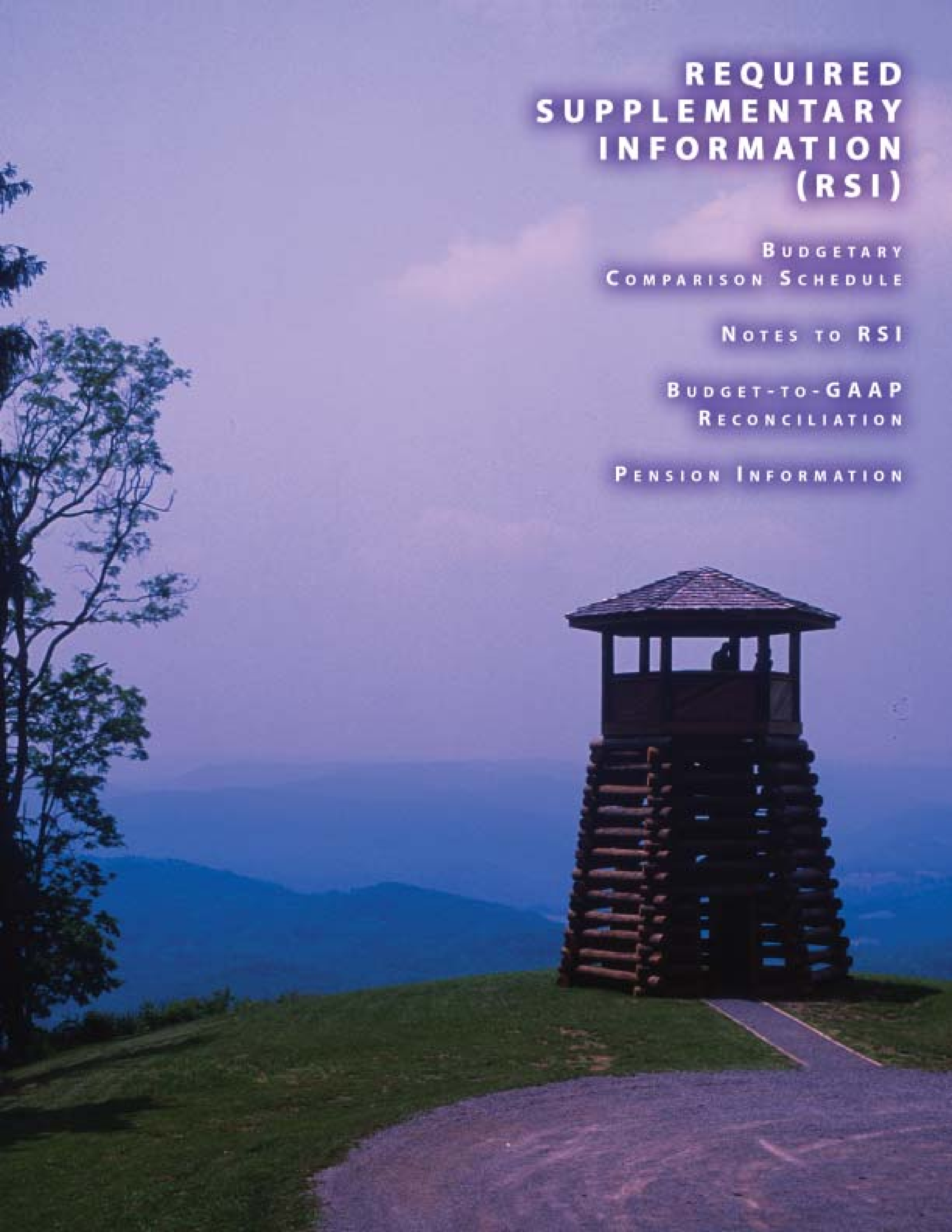
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

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, 2005
(Expressed in Thousands)

	General Revenue Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes:				
Personal Income	$1,101,300	$1,146,900	$1,170,087	$ 23,187
Consumer Sales	946,400	951,700	960,172	8,472
Severance	162,000	232,500	248,068	15,568
Corporate Income/Business Franchise	173,000	266,600	280,788	14,188
Business and Occupation	172,500	172,500	182,461	9,961
Gasoline and Motor Carrier	—	—	—	—
Automobile Privilege	—	—	—	—
Other	334,400	329,400	343,971	14,571
Excess Lottery Transfer	87,800	226,991	228,011	1,020
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	13,300	13,300	11,657	(1,643)
Departmental Collections	15,000	15,000	13,071	(1,929)
Investment Earnings	14,000	14,000	13,193	(807)
Other	52,056	52,056	53,351	1,295
Industrial Access Road Transfer	—	—	—	—
Total Revenues	3,071,756	3,420,947	3,504,830	83,883
Expenditures:				
Legislature	36,953	36,953	22,925	14,028
Judicial	76,402	76,402	75,751	651
Executive	43,172	93,610	67,015	26,595
Administration	53,173	280,925	277,448	3,477
Commerce	49,308	56,309	39,312	16,997
Environmental Protection	7,827	7,827	7,827	—
Employment Programs	—	—	—	—
Education	1,943,554	1,949,444	1,927,263	22,181
Health and Human Resources	564,367	603,629	594,272	9,357
Military Affairs and Public Safety	238,602	253,920	229,620	24,300
Revenue	26,635	48,636	20,930	27,706
Transportation	7,408	7,408	4,930	2,478
Senior Services	883	883	848	35
Regulatory Boards and Commissions	5,000	5,000	5,000	—
Total Expenditures	3,053,284	3,420,946	3,273,141	147,805
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	18,472	1	231,689	231,688
Expenditures from Prior Year Appropriations	241,119	241,119	141,150	99,969
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	(222,647)	(241,118)	90,539	331,657
Budgetary Fund Balance, Beginning of Year, as Adjusted	242,670	242,670	242,670	—
Budgetary Fund Balance, End of Year	$ 20,023	$ 1,552	$ 333,209	$331,657

Federal Revenue				State Road			
Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	310,500	311,700	311,625	(75)
—	—	—	—	180,083	179,600	179,935	335
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
3,171,999	3,269,014	2,631,442	(637,572)	474,040	474,500	413,189	(61,311)
—	—	—	—	87,500	85,754	88,074	2,320
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	8,120	8,120	9,178	1,058
—	—	—	—	(3,000)	(3,000)	(2,425)	575
3,171,999	3,269,014	2,631,442	(637,572)	1,057,243	1,056,674	999,576	(57,098)
1,263	1,263	646	617	—	—	—	—
150	150	9	141	—	—	—	—
55,600	56,351	28,134	28,217	—	—	—	—
34,017	34,017	33,323	694	—	—	—	—
100,223	101,541	69,498	32,043	—	—	—	—
98,015	108,015	86,323	21,692	—	—	—	—
4,258	4,258	1,722	2,536	—	—	—	—
446,608	446,608	360,269	86,339	—	—	—	—
2,281,199	2,292,255	1,944,345	347,910	—	—	—	—
125,283	183,896	79,743	104,153	—	—	—	—
25	1,025	127	898	—	—	—	—
24,110	25,699	13,383	12,316	1,088,294	1,091,707	975,970	115,737
14,550	14,550	12,100	2,450	—	—	—	—
2,248	3,278	2,260	1,018	—	—	—	—
3,187,549	3,272,906	2,631,882	641,024	1,088,294	1,091,707	975,970	115,737
(15,550)	(3,892)	(440)	3,452	(31,051)	(35,033)	23,606	58,639
—	—	—	—	—	—	—	—
(15,550)	(3,892)	(440)	3,452	(31,051)	(35,033)	23,606	58,639
41,730	41,730	41,730	—	110,961	110,961	110,961	—
$ 26,180	$ 37,838	$ 41,290	$ 3,452	$ 79,910	$ 75,928	$134,567	$ 58,639

(Continued)

Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)
(Continued)

	Special Revenue			
	Original Budget	Final Budget	Actual	Variance With Final Budget
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	1,243,626	1,581,274	1,870,432	289,158
Investment Earnings	—	—	—	—
Other	—	—	—	—
Industrial Access Road Transfer	—	—	—	—
Total Revenues	1,243,626	1,581,274	1,870,432	289,158
Expenditures:				
Legislature	3,754	3,265	1,611	1,654
Judicial	—	—	—	—
Executive	20,937	21,663	17,828	3,835
Administration	60,704	60,955	54,052	6,903
Commerce	103,873	104,873	90,483	14,390
Environmental Protection	48,155	49,382	30,405	18,977
Employment Programs	—	—	—	—
Education	209,135	199,726	183,218	16,508
Health and Human Resources	338,251	354,200	321,097	33,103
Military Affairs and Public Safety	26,768	36,711	25,696	11,015
Revenue	126,429	265,819	255,585	10,234
Transportation	6,290	6,290	2,512	3,778
Senior Services	38,470	38,497	37,291	1,206
Regulatory Boards and Commissions	91,079	100,145	81,233	18,912
Total Expenditures	1,073,845	1,241,526	1,101,011	140,515
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	169,781	339,748	769,421	429,673
Expenditures from Prior Year Appropriations	190,412	190,412	119,930	70,482
Total Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,631)	149,336	649,491	500,155
Budgetary Fund Balance, Beginning of Year, as Adjusted	848,715	848,715	848,715	—
Budgetary Fund Balance, End of Year	$ 828,084	$ 998,051	$1,498,206	$500,155

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 five 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.

Throughout the year, in the event of a budget surplus, supplemental appropriation requests may be made on a special session basis to the Legislature. Appropriations from General Revenue were increased approximately $37.8 million for surplus appropriation. Appropriated Special Revenue and Federal Funds were increased by total supplemental appropriations of $239.4 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.

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.

2005 Budgetary Reporting

The State's budgetary General Revenue Fund surplus for the year ended June 30, 2005, is calculated as follows (expressed in thousands):

Preliminary General Revenue Fund current year excess of revenues over expenditures as reflected on Budgetary Comparison Schedule	$231,689
Less accounts reappropriated for spending in FY 2006	(141,987)
Accumulated surplus	89,702
Less amount to be transferred to Revenue Shortfall Reserve Fund	(44,851)
General Revenue Fund FY 2005 surplus available for appropriation in FY 2006	$ 44,851

In August 2005 after the close of the fiscal year, $44,851,000 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, 2004, have been restated as follows (expressed in thousands):

General Revenue Fund:	
Beginning Fund Balance	$266,780
Prior Year Refunds	283
Transfer from Expired Funds	7,335
Less Transfer to Rainy Day Fund	(31,728)
Adjusted Beginning Fund Balance	$242,670
Appropriated Special Revenue Fund:	
Beginning Fund Balance	$848,569
Adjustment to Include Other Appropriated Special Revenue	146
Adjusted Beginning Fund Balance	$848,715

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, 2005, 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
Fiscal Year Ended June 30, 2005
(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	$ 3,504,830	$ 2,631,442	$ 999,576	$ 1,870,432
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP revenues	(2,972,655)	—	—	—
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(461,534)	—	(4,150)	—
Other Basis of Accounting Difference	252,153	—	11,958	—
Reclassifications:				
Prior year General Revenue Refunds	283	—	—	—
Special Revenue and Other Funds expired into the budgetary General Revenue Fund	7,335	—	—	—
Nonappropriated Budgetary Fund's revenue included as revenue/transfers in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,223,844	—	60,937	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	571,444	—	472	(1,870,432)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	2,527,087	(2,631,442)	13,446	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	$ 6,652,787	$ —	$1,082,239	$ —
USES/OUTFLOWS OF RESOURCES				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 3,414,291	$ 2,631,882	$ 975,970	$ 1,220,941
Differences - Budget to GAAP:				
Intrafund transactions not included in GAAP expenditures	(2,972,655)	—	—	—
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(144,278)	—	—	—
Other Basis of Accounting Difference	334,276	—	14,914	—
Reclassifications:				
Nonappropriated Budgetary Fund's expenditures/transfers out included as expense in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	3,234,103	—	49,352	—
Budgetary general revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	—	—	4,351	—
Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	517,410	—	2,511	(1,220,941)
Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds	2,527,353	(2,631,882)	13,383	—
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	$ 6,910,500	$ —	$1,060,481	$ —

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
TRS							
	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%
	2002	$1,098,441	$5,709,001	$4,610,560	19.2%	$841,627	547.8%
PSDDRF							
	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%
	2002	$ 91,095	$ 416,938	$ 325,843	21.9%	$ 14,314	2,276.4%
SPRS							
	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%
	2002	$ 11,644	$ 13,708	$ 2,064	84.9%	$ 10,134	20.4%
JRS							
	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%
	2002	$ 47,620	$ 92,215	$ 44,595	51.6%	$ 6,325	705.1%

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:

	PERS	TRS	PSDDRF	SPRS	DSRS	JRS
Valuation date	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004
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	N/A	Constant percentage of payroll	Constant dollar
Amortization period	Through FY 2029*	Through FY 2034	Through FY 2025	Through FY 2030	Through FY 2038*	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%-2.5%%	1.75%-3.00%	1.75%-3.00%	1.50%-2.50%	4.50%
Postemployment benefit increases	None	None	3.75% Annual cost of living adjustment	1% Annual cost of living adjustment	None	4.50%

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

Current Year Actuarial Changes

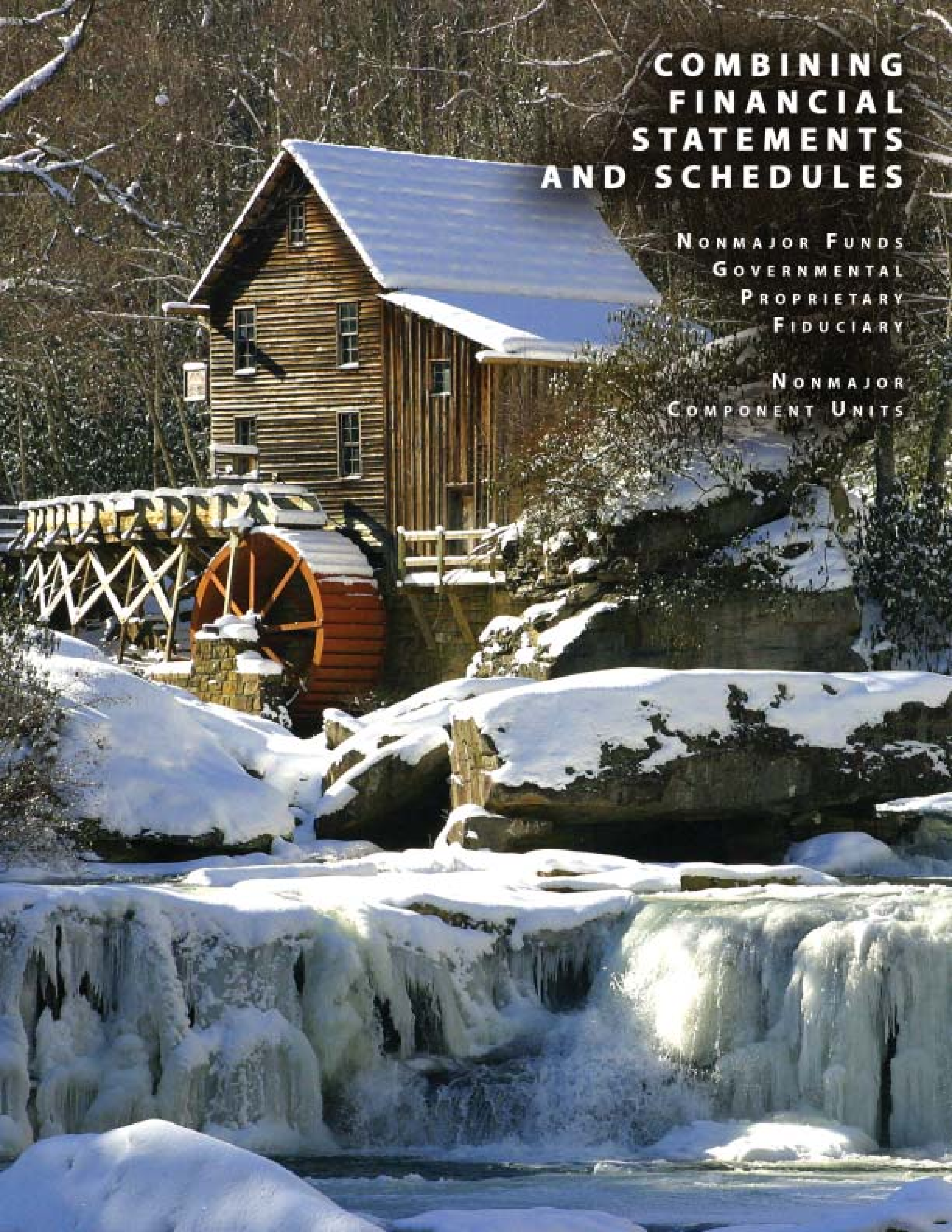
Significant changes in assumptions included in the July 1, 2004, actuarial valuations are as follows:

The Public Safety Death, Disability, and Retirement Fund valuation incorporated changes on mortality, salary scale, and decrement assumptions to reflect the most recent experience study.

The State Police Retirement System incorporated changes on the salary scale and decrement assumptions to reflect the most recent experience study.

The Judges' Retirement System incorporated changes on interest rate (from 6.5% to 7.5%) salary scale, pre-retirement decrements, retirement decrements and post-retirement mortality assumptions.

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 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.

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 The Fund, established in the West Virginia State Code 4-11A-2, receives fifty percent of the State's tobacco settlement receipts as a participant in the national master tobacco settlement agreement. The settlement moneys received are placed in investments and may not be expended for any purpose. The earnings received on these investments may be expended upon appropriation of the Legislature for support of the Public Employees' Insurance Agency, expansion of the State's Medicaid program, or funding of the State's owned or operated health facilities.

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(Expressed in Thousands)

	Special Revenue	Debt Service	Capital Projects: School Building Authority
Assets:			
Cash and Cash Equivalents	$128,353	$ 99,215	$182,011
Investments	34,165	22,978	48,149
Receivables, Net	5,674	1,717	—
Due from Other Governments	1,235	—	—
Due from Other Funds	439	1,000	—
Inventories	77	—	—
Other Assets	15	—	—
Restricted Assets:			
Cash and Cash Equivalents	1,851	—	—
Total Assets	$171,809	$124,910	$230,160
Liabilities:			
Accounts Payable	$ 4,430	$ —	$ 8,243
Accrued and Other Liabilities	32,245	—	361
Deferred Revenue	—	—	—
Due to Other Governments	3,236	—	—
Due to Other Funds	787	—	—
Total Liabilities	40,698	—	8,604
Fund Balances:			
Reserved for:			
Inventories	77	—	—
Program Administration	6,441	—	—
Permanent Funds	—	—	—
Unreserved:			
Designated for:			
Capital Projects	—	—	221,556
Debt Service	—	124,910	—
Unreserved	124,593	—	—
Total Fund Balances	131,111	124,910	221,556
Total Liabilities and Fund Balances	$171,809	$124,910	$230,160

	Capital Projects		Permanent Funds		
	Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Irreducible School	Tobacco Settlement Medical Trust Fund	Total
	$86	$58,037	$1,427	$ —	$469,129
	—	—	—	210,096	315,388
	—	43	3	7,532	14,969
	—	—	—	—	1,235
	—	—	—	20,798	22,237
	—	—	—	—	77
	—	—	—	—	15
	—	—	—	—	1,851
	$86	$58,080	$1,430	$238,426	$824,901
	$ —	$ 3,279	$ —	$ —	$ 15,952
	—	—	—	—	32,606
	—	—	—	4,646	4,646
	—	—	—	—	3,236
	—	—	—	—	787
	—	3,279	—	4,646	57,227
	—	—	—	—	77
	—	—	—	—	6,441
	—	—	1,430	233,780	235,210
	86	54,801	—	—	276,443
	—	—	—	—	124,910
	—	—	—	—	124,593
	86	54,801	1,430	233,780	767,674
	$86	$58,080	$1,430	$238,426	$824,901

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

			Capital Projects	
	Special Revenue	Debt Service	State Road	School Building Authority
Revenues:				
Taxes:				
Other	$ 4,000	$ —	$ —	$ —
Intergovernmental	120,393	—	—	—
Licenses, Permits, and Fees	76,349	—	—	—
Charges for Services	752	—	—	—
Investment Earnings	5,235	4,041	—	6,580
Other	4,440	—	—	—
Total Revenues	211,169	4,041	—	6,580
Expenditures:				
Legislature	2,324	—	—	—
Executive	130	—	—	—
Administration	—	—	—	—
Environmental Protection	88,689	—	—	—
Employment Programs	36,609	—	—	—
Education	963	—	—	70,222
Military Affairs and Public Safety	3,614	—	—	—
Revenue	617	—	—	—
Regulatory Boards and Commissions	22,377	—	—	—
Capital Outlay	—	4	—	—
Debt Service:				
Principal	—	67,340	—	—
Interest	—	62,742	—	—
Total Expenditures	155,323	130,086	—	70,222
Excess (Deficiency) of Revenues Over (Under) Expenditures	55,846	(126,045)	—	(63,642)
Other Financing Sources (Uses):				
Face Value of Long-Term Debt Issued	—	—	—	141,600
Premiums on Bonds Issued	—	—	—	5,146
Capital Lease Acquisition	—	6,696	—	—
Transfers In	9,166	116,494	—	32,443
Transfers Out	(37,058)	(4,022)	(15)	—
Total Other Financing Sources (Uses)	(27,892)	119,168	(15)	179,189
Net Change in Fund Balances	27,954	(6,877)	(15)	115,547
Fund Balances, Beginning of Year, as Adjusted	103,157	131,787	15	106,009
Fund Balances, End of Year	$131,111	$ 124,910	$ —	$221,556

Capital Projects: Education, Arts, Sciences, and Tourism Fund	Capital Projects: Lease Purchase Account	Permanent Funds: Irreducible School	Permanent Funds: Tobacco Settlement Medical Trust Fund	Total
$ —	$ —	$ —	$ —	$ 4,000
—	—	—	—	120,393
—	—	—	—	76,349
—	—	9	—	761
1	1,035	27	18,852	35,771
—	—	393	28,577	33,410
1	1,035	429	47,429	270,684
—	—	—	—	2,324
—	—	—	—	130
—	9	—	—	9
—	11	—	—	88,700
—	—	—	—	36,609
—	—	—	—	71,185
—	—	—	—	3,614
—	—	—	—	617
—	—	—	—	22,377
—	30,928	—	—	30,932
—	—	—	—	67,340
—	700	—	—	63,442
—	31,648	—	—	387,279
1	(30,613)	429	47,429	(116,595)
—	—	—	—	141,600
—	—	—	—	5,146
—	55,154	—	—	61,850
—	1,216	—	—	159,319
(1)	(1,691)	(384)	—	(43,171)
(1)	54,679	(384)	—	324,744
—	24,066	45	47,429	208,149
86	30,735	1,385	186,351	559,525
$86	$ 54,801	$1,430	$233,780	$ 767,674

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 Examiners The Fund is responsible for examining the financial condition and business methods of domestic, foreign, and alien insurers to ascertain whether they have complied with all laws and regulations of the State. Additionally, the Fund is authorized to promulgate and adopt 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.

Bureau of Employment Programs The Bureau includes the Employment Service Division (ES) and the administrative activities of the Unemployment Compensation Division (UC). The ES operates local offices throughout the State to serve those seeking and providing employment. The UC provides temporary income as partial compensation to unemployed workers from moneys collected under provisions of the Federal Unemployment Tax Act.

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, 2005
(Expressed in Thousands)

	Environmental Protection	School Building Authority	Public Service Commission
Assets:			
Cash and Cash Equivalents	$ 104,794	$170	$10,646
Investments	—	—	—
Receivables, Net	4,207	—	254
Due from Other Governments	1,114	—	121
Due from Other Funds	222	—	71
Inventories	—	—	—
Other Assets	15	—	—
Restricted Assets:			
Cash and Cash Equivalents	1,851	—	—
Total Assets	$112,203	$170	$11,092
Liabilities:			
Accounts Payable	$ 3,538	$ 56	$ 448
Accrued and Other Liabilities	28,419	—	298
Due to Other Governments	45	—	3,191
Due to Other Funds	487	4	143
Total Liabilities	32,489	60	4,080
Fund Balances:			
Reserved for:			
Inventories	—	—	—
Program Administration	—	—	—
Unreserved (Deficit)	79,714	110	7,012
Total Fund Balances	79,714	110	7,012
Total Liabilities and Fund Balances	$ 112,203	$170	$11,092

Crime Victims' Compensation	Insurance Commission Examiners	Armory Board	Bureau of Employment Programs	Wildlife Resources Fund	Children's Fund	Total
$6,507	$2,552	$2,128	$ 545	$ 7	$1,004	$128,353
—	—	—	—	34,165	—	34,165
15	—	95	629	472	2	5,674
—	—	—	—	—	—	1,235
—	—	101	45	—	—	439
—	—	—	77	—	—	77
—	—	—	—	—	—	15
—	—	—	—	—	—	1,851
$6,522	$2,552	$2,324	$1,296	$34,644	$1,006	$171,809
$ —	$ 39	$ 94	$ 255	$ —	$ —	$ 4,430
—	—	—	3,528	—	—	32,245
—	—	—	—	—	—	3,236
—	—	6	147	—	—	787
—	39	100	3,930	—	—	40,698
—	—	—	77	—	—	77
—	—	—	6,441	—	—	6,441
6,522	2,513	2,224	(9,152)	34,644	1,006	124,593
6,522	2,513	2,224	(2,634)	34,644	1,006	131,111
$6,522	$2,552	$2,324	$1,296	$34,644	$1,006	$171,809

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Environmental Protection	School Building Authority	Public Service Commission
Revenues:			
Taxes:			
Other	$ 4,000	$ —	$ —
Intergovernmental	86,018	—	1,940
Licenses, Permits, and Fees	55,186	—	18,119
Charges for Services	467	—	285
Investment Earnings and Losses	1,734	—	—
Other	4,184	—	—
Total Revenues	151,589	—	20,344
Expenditures:			
Legislature	—	—	—
Executive	—	—	—
Environmental Protection	88,689	—	—
Employment Programs	—	—	—
Education	—	963	—
Military Affairs and Public Safety	—	—	—
Revenue	—	—	—
Regulatory Boards and Commissions	—	—	22,377
Total Expenditures	88,689	963	22,377
Excess (Deficiency) of Revenues Over (Under) Expenditures	62,900	(963)	(2,033)
Other Financing Sources (Uses):			
Transfers In	71	900	4,035
Transfers Out	(35,679)	—	(1,362)
Total Other Financing Sources (Uses)	(35,608)	900	2,673
Net Change in Fund Balances	27,292	(63)	640
Fund Balances, Beginning of Year	52,422	173	6,372
Fund Balances, End of Year	$ 79,714	$ 110	$ 7,012

Crime Victims' Compensation	Insurance Commission Examiners	Armory Board	Bureau of Employment Programs	Wildlife Resources Fund	Children's Fund	Total
$ —	$ —	$ —	$ —	$ —	$ —	$ 4,000
646	—	—	31,789	—	—	120,393
1,859	588	—	—	597	—	76,349
—	—	—	—	—	—	752
116	—	42	—	3,324	19	5,235
—	—	190	—	4	62	4,440
2,621	588	232	31,789	3,925	81	211,169
2,324	—	—	—	—	—	2,324
—	—	—	—	—	130	130
—	—	—	—	—	—	88,689
—	—	—	36,609	—	—	36,609
—	—	—	—	—	—	963
—	—	3,614	—	—	—	3,614
—	617	—	—	—	—	617
—	—	—	—	—	—	22,377
2,324	617	3,614	36,609	—	130	155,323
297	(29)	(3,382)	(4,820)	3,925	(49)	55,846
—	—	3,500	660	—	—	9,166
(2)	(2)	(13)	—	—	—	(37,058)
(2)	(2)	3,487	660	—	—	(27,892)
295	(31)	105	(4,160)	3,925	(49)	27,954
6,227	2,544	2,119	1,526	30,719	1,055	103,157
$6,522	$ 2,513	$ 2,224	$ (2,634)	$34,644	$1,006	$131,111

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, 2005
(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	$27,353	$97	$24,298	$14,384	$33,083	$ 99,215
Investments	22,978	—	—	—	—	22,978
Receivables, Net	1,185	—	38	6	488	1,717
Due from Other Funds	—	—	1,000	—	—	1,000
Total Assets	$51,516	$97	$25,336	$14,390	$33,571	$124,910
Fund Balances:						
Unreserved:						
Designated for:						
Debt Service	$51,516	$97	$25,336	$14,390	$33,571	$124,910
Total Liabilities and Fund Balances	$51,516	$97	$25,336	$14,390	$33,571	$124,910

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Fiscal Year Ended June 30, 2005
(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
Revenues:						
Investment Earnings	$ 1,540	$ 150	$ 407	$ 469	$ 1,475	$ 4,041
Expenditures:						
Capital Outlay	—	—	—	4	—	4
Debt Service:						
Principal	31,585	5,275	7,025	9,565	13,890	67,340
Interest	17,321	16,002	2,803	15,607	11,009	62,742
Total Expenditures	48,906	21,277	9,828	25,176	24,899	130,086
(Deficiency) of Revenues (Under) Expenditures	(47,366)	(21,127)	(9,421)	(24,707)	(23,424)	(126,045)
Other Financing Sources (Uses):						
Face Value of Long-Term Debt Issued	—	—	—	6,696	—	6,696
Transfers In	39,558	24,000	9,997	23,953	18,986	116,494
Transfers Out	(1,123)	(2,838)	—	(61)	—	(4,022)
Total Other Financing Sources	38,435	21,162	9,997	30,588	18,986	119,168
Net Change in Fund Balances	(8,931)	35	576	5,881	(4,438)	(6,877)
Fund Balances, Beginning of Year	60,447	62	24,760	8,509	38,009	131,787
Fund Balances, End of Year	$ 51,516	$ 97	$25,336	$ 14,390	$ 33,571	$ 124,910

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 Consolidated Pension Fund and the State's operating funds.

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2005
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$ 7,951	$ 7,337	$ 4,581	$4,116	$ 23,985
Receivables, Net	16	204	—	3,609	3,829
Due from Other Funds	279	8,000	1,082	—	9,361
Due from Component Units	—	488	61	—	549
Inventories	129	333	—	—	462
Other Assets	59	21	3	33	116
Restricted Assets:					
Cash and Cash Equivalents	—	—	316	—	316
Total Current Assets	8,434	16,383	6,043	7,758	38,618
Noncurrent Assets:					
Restricted Assets:					
Cash and Cash Equivalents	25,314	—	—	—	25,314
Capital Assets, Net	45,759	2,259	8,913	37	56,968
Total Noncurrent Assets	71,073	2,259	8,913	37	82,282
Total Assets	79,507	18,642	14,956	7,795	120,900
Liabilities:					
Current Liabilities:					
Accounts Payable	1,487	9,423	635	4,106	15,651
Accrued and Other Liabilities	64	131	12	—	207
Due to Other Governments	16	45	5	—	66
Due to Other Funds	187	11	18	20	236
Due to Component Units	—	425	—	—	425
Capital Leases	679	492	3,149	—	4,320
Total Current Liabilities	2,433	10,527	3,819	4,126	20,905
Noncurrent Liabilities:					
Capital Leases	2,707	986	2,545	—	6,238
Compensated Absences	852	2,646	367	—	3,865
Total Noncurrent Liabilities	3,559	3,632	2,912	—	10,103
Total Liabilities	5,992	14,159	6,731	4,126	31,008
Net Assets:					
Invested in Capital Assets, Net of Related Debt	42,373	781	3,219	37	46,410
Restricted for Capital Projects	31,914	—	—	—	31,914
Unrestricted	(772)	3,702	5,006	3,632	11,568
Total Net Assets	$73,515	$ 4,483	$ 8,225	$3,669	$ 89,892

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Operating Revenues:					
Charges for Services	$11,795	$27,617	$11,069	$17,633	$68,114
Operating Expenses:					
Cost of Sales and Services	16,760	24,378	5,054	15,126	61,318
General and Administration	757	1,523	409	2,489	5,178
Depreciation and Amortization	1,904	536	4,132	29	6,601
Total Operating Expenses	19,421	26,437	9,595	17,644	73,097
Operating Income (Loss)	(7,626)	1,180	1,474	(11)	(4,983)
Nonoperating Revenues (Expenses):					
Entitlements, Grants and Shared Revenues	—	912	—	—	912
Gain (Loss) on Sale of Equipment	—	(43)	54	—	11
Investment Earnings	246	—	3	77	326
Interest Expense	(191)	(29)	(238)	—	(458)
Other Nonoperating Revenues	1,724	—	147	—	1,871
Total Nonoperating Revenues (Expenses)	1,779	840	(34)	77	2,662
Income (Loss) Before Transfers	(5,847)	2,020	1,440	66	(2,321)
Transfers In	12,734	—	2,492	—	15,226
Transfers Out	(1,402)	—	—	—	(1,402)
Total Transfers	11,332	—	2,492	—	13,824
Change in Net Assets	5,485	2,020	3,932	66	11,503
Net Assets, Beginning of Year	68,030	2,463	4,293	3,603	78,389
Net Assets, End of Year	$73,515	$ 4,483	$ 8,225	$ 3,669	$89,892

Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Cash Flows from Operating Activities:					
Receipts from Customers	$ 11,629	$ 39,662	$10,694	$ 16,397	$ 78,382
Payments to Suppliers	(12,123)	(21,813)	(3,742)	(14,427)	(52,105)
Payments to Employees	(4,232)	(12,438)	(1,073)	(1,734)	(19,477)
Net Cash Provided by (Used for) Operating Activities	(4,726)	5,411	5,879	236	6,800
Cash Flows from Noncapital Financing Activities:					
Transfers In	14,458	—	2,492	—	16,950
Transfers Out	(1,402)	—	—	—	(1,402)
Entitlements and Grants	—	912	—	—	912
Net Cash Provided by Noncapital Financing Activities	13,056	912	2,492	—	16,460
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Sale of Capital Bonds and Other Debts	—	1,580	999	—	2,579
Repayment of Capital Debt	(753)	(227)	(4,265)	—	(5,245)
Interest Paid on Capital Debt	(195)	(29)	(238)	—	(462)
Acquisition and Construction of Capital Assets	(1,479)	(2,319)	(3,454)	—	(7,252)
Proceeds from Sale of Capital Assets	—	—	73	—	73
Net Cash Used for Capital and Related Financing Activities	(2,427)	(995)	(6,885)	—	(10,307)
Cash Flows from Investing Activities:					
Purchase of Investments	(350)	—	—	—	(350)
Proceeds from Sale of Investments	350	—	—	—	350
Investment Earnings	246	—	3	71	320
Net Cash Provided by Investing Activities	246	—	3	71	320
Net Increase in Cash and Cash Equivalents	6,149	5,328	1,489	307	13,273
Cash and Cash Equivalents, Beginning of Year	27,116	2,009	3,408	3,809	36,342
Cash and Cash Equivalents, End of Year	$33,265	$ 7,337	$ 4,897	$ 4,116	$ 49,615

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Operating Income (Loss)	$(7,626)	$ 1,180	$1,474	$ (11)	$(4,983)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	1,904	536	4,132	29	6,601
Changes in Assets and Liabilities:					
Receivables	(166)	(5,095)	(375)	(1,236)	(6,872)
Inventories	9	66	—	—	75
Other Assets	19	8	(2)	52	77
Accounts Payable and Accrued Liabilities	1,137	8,667	657	1,402	11,863
Other Liabilities	(3)	49	(7)	—	39
Net Cash Provided by (Used for) Operating Activities	$(4,726)	$ 5,411	$5,879	$ 236	$ 6,800

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.

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, 2005
(Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	West Virginia Health Insurance Plan	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$10,285	$7,653	$ 1,703	$1,510	$ 21,151
Receivables, Net	1,339	5	2,365	4	3,713
Due from Other Funds	—	—	25	—	25
Inventories	—	22	—	—	22
Other Assets	—	26	—	—	26
Total Current Assets	11,624	7,706	4,093	1,514	24,937
Noncurrent Assets:					
Investments	—	—	89,306	—	89,306
Receivables, Net	28,369	—	6,186	—	34,555
Capital Assets, Net	—	1,949	—	—	1,949
Total Noncurrent Assets	28,369	1,949	95,492	—	125,810
Total Assets	39,993	9,655	99,585	1,514	150,747
Liabilities:					
Current Liabilities:					
Accounts Payable	—	2,025	179	—	2,204
Accrued Tuition Contract Benefits	—	—	6,855	—	6,855
Accrued and Other Liabilities	—	39	—	—	39
Due to Other Funds	—	57	—	—	57
Compensated Absences	—	—	23	—	23
Total Current Liabilities	—	2,121	7,057	—	9,178
Noncurrent Liabilities:					
Accrued Tuition Contract Benefits	—	—	99,133	—	99,133
Compensated Absences	—	1,115	43	—	1,158
Total Noncurrent Liabilities	—	1,115	99,176	—	100,291
Total Liabilities	—	3,236	106,233	—	109,469
Net Assets:					
Invested in Capital Assets	—	1,949	—	—	1,949
Restricted for:					
Program Administration	—	—	149	—	149
Lending Activities	39,993	—	—	—	39,993
Unrestricted (Deficit)	—	4,470	(6,797)	1,514	(813)
Total Net Assets (Deficit)	$39,993	$6,419	$ (6,648)	$1,514	$ 41,278

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	West Virginia Health Insurance Plan	Total
Operating Revenues:					
Charges for Services and Sales	$ 441	$61,804	$ —	$1,502	$ 63,747
Tuition Contracts	—	—	632	—	632
Licenses, Permits, and Fees	—	3,173	—	—	3,173
Other	—	148	454	—	602
Total Operating Revenues	441	65,125	1,086	1,502	68,154
Operating Expenses:					
Cost of Sales and Services	—	49,044	—	—	49,044
Tuition Contract Benefits and Expenses	—	—	4,296	—	4,296
General and Administration	1	5,384	460	—	5,845
Depreciation and Amortization	—	123	—	—	123
Total Operating Expenses	1	54,551	4,756	—	59,308
Operating Income (Loss)	440	10,574	(3,670)	1,502	8,846
Nonoperating Revenues:					
Interest and Other Investment Income	178	—	8,704	12	8,894
Income Before Transfers	618	10,574	5,034	1,514	17,740
Transfers:					
Transfers In	4,114	200	148	—	4,462
Transfers Out	—	(11,033)	—	—	(11,033)
Total Transfers	4,114	(10,833)	148	—	(6,571)
Change in Net Assets	4,732	(259)	5,182	1,514	11,169
Net Assets (Deficit), Beginning of Year	35,261	6,678	(11,830)	—	30,109
Net Assets (Deficit), End of Year	$39,993	$ 6,419	$ (6,648)	$1,514	$ 41,278

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	West Virginia Health Insurance Plan	Total
Cash Flows From Operating Activities:					
Receipts from Customers	$ 1,578	$ 65,070	$ 3,588	$1,502	$ 71,738
Payments to Suppliers	—	(50,857)	(159)	—	(51,016)
Payments to Employees	—	(3,417)	(234)	—	(3,651)
Payments to Beneficiaries	—	—	(3,649)	—	(3,649)
Payments for Loans Originated	(3,677)	—	—	—	(3,677)
Other Operating Cash Receipts	—	84	408	—	492
Other Operating Cash Payments	(16)	—	—	—	(16)
Net Cash Provided by (Used for) Operating Activities	(2,115)	10,880	(46)	1,502	10,221
Cash Flows from Noncapital Financing Activities:					
Transfers In	4,114	200	135	—	4,449
Transfers Out	—	(11,033)	—	—	(11,033)
Net Cash Provided by (Used for) Noncapital Financing Activities	4,114	(10,833)	135	—	(6,584)
Cash Flows from Capital and Related Financing Activities:					
Acquisition and Construction of Capital Assets	—	(14)	—	—	(14)
Net Cash Used for Capital and Related Financing Activities	—	(14)	—	—	(14)
Cash Flows from Investing Activities:					
Purchase of Investments	—	—	(799)	—	(799)
Proceeds from Sale of Investments	—	—	1,220	—	1,220
Investment Earnings	178	—	819	8	1,005
Net Cash Provided by Investing Activities	178	—	1,240	8	1,426
Net Increase in Cash and Cash Equivalents	2,177	33	1,329	1,510	5,049
Cash and Cash Equivalents, Beginning of Year	8,108	7,620	374	—	16,102
Cash and Cash Equivalents, End of Year	$10,285	$ 7,653	$ 1,703	$1,510	$ 21,151

(Continued)

Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)
(Continued)

	Business-type Activities Enterprise Funds				
	Drinking Water Treatment Revolving Fund	Alcohol Beverage Control Administration	West Virginia Prepaid College Plan	West Virginia Health Insurance Plan	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Operating Income (Loss)	$ 440	$10,574	$(3,670)	$1,502	$ 8,846
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	—	123	—	—	123
Changes in Assets and Liabilities:					
Receivables	(2,540)	37	2,910	—	407
Inventories	—	(17)	—	—	(17)
Other Assets	—	(3)	—	—	(3)
Accounts Payable and Accrued Liabilities	—	166	70	—	236
Tuition Contracts Benefits and Expenses	—	—	647	—	647
Other Liabilities	(15)	—	—	—	(15)
Compensated Absences	—	—	(3)	—	(3)
Net Cash Provided by (Used for) Operating Activities	$(2,115)	$10,880	$ (46)	$1,502	$10,221
Schedule of Noncash Capital and Financing Activities:					
Unrealized Gain on Investments	$ —	$ —	$ 7,885	$ —	$ 7,885

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, 2005
(Expressed in Thousands)

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Assets:			
Cash and Cash Equivalents	$ 195	$ 1	$ —
Investments:			
Equity in Pooled Investments	3,400,387	1,598,238	361,209
Mutual Funds	—	—	—
Receivables, Net:			
Contributions Receivable	3,283	16,693	—
Participant Loans Receivable	—	12,552	—
Due from Other Funds	1,054	8	—
Other Assets	—	—	187
Total Assets	3,404,919	1,627,492	361,396
Liabilities:			
Accrued and Other Liabilities	268	137	6
Net Assets Held in Trust for Pension Benefits	$3,404,651	$1,627,355	$361,390

State Police Retirement System	Judges' Retirement System	Teachers' Defined Contribution Retirement System	Deputy Sheriff Retirement System	Total Pension Trust Funds
$ —	$ —	$ 5,819	$ —	$ 6,015
25,297	74,757	—	68,212	5,528,100
—	—	629,889	—	629,889
—	—	10,390	459	30,825
—	—	—	241	12,793
—	—	—	—	1,062
—	—	—	2	189
25,297	74,757	646,098	68,914	6,208,873
—	—	371	—	782
$25,297	$74,757	$645,727	$68,914	$6,208,091

Combining Statement of Changes in Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability, and Retirement Fund
Additions:			
Contributions:			
Members	$ 52,984	$ 49,287	$ 1,053
Employers	118,740	339,724	252,367
Total Contributions	171,724	389,011	253,420
Investment Income:			
Net Appreciation in Fair Value of Investments	346,511	153,855	12,614
Interest	—	1,392	—
Investment Expense	(16,439)	(7,456)	(947)
Net Investment Income	330,072	147,791	11,667
Transfers to (from) Plans	679	(686)	—
Other	—	14,419	579
Total Additions	502,475	550,535	265,666
Deductions:			
Benefit Expense	183,292	344,841	22,278
Refunds of Contributions	7,903	4,098	48
Administrative Expenses	2,289	1,716	30
Total Deductions	193,484	350,655	22,356
Change in Net Assets Held in Trust for Pension Benefits	308,991	199,880	243,310
Net Assets, Beginning of Year	3,095,660	1,427,475	118,080
Net Assets, End of Year	$3,404,651	$1,627,355	$361,390

State Police Retirement System	Judges' Retirement System	Teachers' Defined Contribution Retirement System	Deputy Sheriff Retirement System	Total Pension Trust Funds
$ 1,702	$ 479	$ 26,602	$ 2,482	$ 134,589
1,702	6,758	45,175	3,098	767,564
3,404	7,237	71,777	5,580	902,153
2,392	7,352	40,952	6,782	570,458
—	—	—	19	1,411
(121)	(362)	—	(329)	(25,654)
2,271	6,990	40,952	6,472	546,215
—	—	7	—	—
—	—	—	470	15,468
5,675	14,227	112,736	12,522	1,463,836
112	3,025	—	3,029	556,577
133	—	10,280	257	22,719
15	4	1,441	37	5,532
260	3,029	11,721	3,323	584,828
5,415	11,198	101,015	9,199	879,008
19,882	63,559	544,712	59,715	5,329,083
$25,297	$74,757	$645,727	$68,914	$6,208,091

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, 2005
(Expressed in Thousands)

	Cash Liquidity	Money Market	Total
Assets:			
Equity in Pooled Cash Equivalents	$52,487	$136,849	$189,336
Total Assets	$52,487	$136,849	$189,336
Net Assets:			
Held in Trust for External Investment Pool Participants	$52,487	$136,849	$189,336
Total Net Assets	$52,487	$136,849	$189,336

Combining Statement of Changes in Fiduciary Net Assets
Investment Trust Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Cash Liquidity	Money Market	Total
Additions:			
Deposits, Pool Participants	$204,994	$400,341	$605,335
Investment Income:			
Net Appreciation in Fair Value of Investments	1,027	3,157	4,184
Total Additions	206,021	403,498	609,519
Deductions:			
Withdrawals	214,160	398,256	612,416
Change in Net Assets Held in Trust for External Investment Pool Participants	(8,139)	5,242	(2,897)
Net Assets, Beginning of Year	60,626	131,607	192,233
Net Assets, End of Year	$ 52,487	$136,849	$189,336

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 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.

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005
(Expressed in Thousands)

	Local Government		Other Agency		
	Local Government	Municipal Bond Commission	Consolidated Investment Pool	Other Agency Funds	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$476	$7,986	$ 4,445	$20,577	$33,484
Equity in Pooled Cash Equivalents	—	—	15,006	4,131	19,137
Receivables, Net	—	—	36	8,345	8,381
Total Assets	$476	$7,986	$19,487	$33,053	$61,002
Liabilities:					
Current Liabilities:					
Accounts Payable	$ —	$ 1	$ —	$ 59	$ 60
Accrued and Other Liabilities	—	—	—	834	834
Due to Other Governments	476	7,985	—	—	8,461
Agency Liabilities	—	—	19,487	32,160	51,647
Total Liabilities	$476	$7,986	$19,487	$33,053	$61,002

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Local Government				
Assets:				
Cash	$ 547	$1,176,093	$1,176,164	$ 476
Total Assets	$ 547	$1,176,093	$1,176,164	$ 476
Liabilities:				
Accounts Payable	$ —	$ 8,616	$ 8,616	$ —
Due to Other Governments	547	1,184,709	1,184,780	476
Total Liabilities	$ 547	$1,193,325	$1,193,396	$ 476
Municipal Bond Commission				
Assets:				
Cash	$ 5,970	$ 450,556	$ 448,540	$ 7,986
Total Assets	$ 5,970	$ 450,556	$ 448,540	$ 7,986
Liabilities:				
Accounts Payable	$ 6	$ 172,321	$ 172,326	$ 1
Due to Other Governments	5,964	622,882	620,861	7,985
Total Liabilities	$ 5,970	$ 795,203	$ 793,187	$ 7,986
Consolidated Investment Pool				
Assets:				
Cash	$ 4,112	$ 9,613	$ 9,280	$ 4,445
Equity in Pooled Cash Equivalents	15,398	4,064	4,456	15,006
Accrued Interest Receivable	13	36	13	36
Total Assets	$19,523	$ 13,713	$ 13,749	$19,487
Liabilities:				
Accounts Payable	$ —	$ 102	$ 102	$ —
Agency Liabilities	19,523	13,815	13,851	19,487
Total Liabilities	$19,523	$ 13,917	$ 13,953	$19,487
Other Agency Funds				
Assets:				
Cash and Cash Equivalents	$13,091	$2,746,683	$2,739,197	$20,577
Equity in Pooled Cash Equivalents	4,434	371	674	4,131
Other Receivables	—	8,334	—	8,334
Accrued Interest Receivable	4	11	4	11
Total Assets	$17,529	$2,755,399	$2,739,875	$33,053
Liabilities:				
Accounts Payable	$ 3	$ 4,710	$ 4,654	$ 59
Accrued and Other Liabilities	—	834	—	834
Agency Liabilities	17,526	2,759,219	2,744,585	32,160
Total Liabilities	$17,529	$2,764,763	$2,749,239	$33,053
Total - All Agency Funds				
Assets:				
Cash and Cash Equivalents	$23,720	$4,382,945	$4,373,181	$33,484
Equity in Pooled Cash Equivalents	19,832	4,435	5,130	19,137
Other Receivables	—	8,334	—	8,334
Accrued Interest Receivable	17	47	17	47
Total Assets	$43,569	$4,395,761	$4,378,328	$61,002
Liabilities:				
Accounts Payable	$ 9	$ 185,749	$ 185,698	$ 60
Accrued and Other Liabilities	—	834	—	834
Due to Other Governments	6,511	1,807,591	1,805,641	8,461
Agency Liabilities	37,049	2,773,034	2,758,436	51,647
Total Liabilities	$43,569	$4,767,208	$4,749,775	$61,002

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, 2005
(Expressed in Thousands)

	Educational Broadcasting Authority	Jobs Investment Trust	WV State Rail Authority
Assets:			
Current Assets:			
Cash and Cash Equivalents	$ 1,720	$ 11,306	$ 1,281
Investments	20	8,186	—
Receivables, Net	427	2,099	30
Due from Primary Government	103	—	417
Inventories	—	—	71
Other Assets	141	754	14
Restricted Assets:			
Cash and Cash Equivalents	—	—	550
Other Restricted Assets	—	—	—
Total Current Assets	2,411	22,345	2,363
Noncurrent Assets:			
Restricted Assets:			
Other Restricted Assets	346	—	—
Capital Assets, Net	7,708	1,082	34,376
Total Noncurrent Assets	8,054	1,082	34,376
Total Assets	10,465	23,427	36,739
Liabilities:			
Current Liabilities:			
Accounts Payable	68	13	569
Accrued and Other Liabilities	—	221	98
Due to Primary Government	21	—	12
Deferred Revenue	303	—	—
Capital Leases	—	—	387
Compensated Absences	256	—	57
Total Current Liabilities	648	234	1,123
Noncurrent Liabilities:			
Liabilities Payable from Restricted Assets	—	—	—
Accrued and Other Liabilities	—	—	—
Capital Leases	—	18,653	837
Compensated Absences	943	—	119
Total Noncurrent Liabilities	943	18,653	956
Total Liabilities	1,591	18,887	2,079
Net Assets:			
Investment in Capital Assets, Net of Related Debt	7,708	1,082	33,153
Restricted for Specific Component Unit Purposes	730	—	—
Unrestricted	436	3,458	1,507
Total Net Assets	$ 8,874	$ 4,540	$34,660

Solid Waste Management Board	Racing Commission	Public Defender Corporation	Total
$2,178	$22,243	$2,779	$ 41,507
—	—	—	8,206
—	505	—	3,061
—	—	—	520
—	—	—	71
1	—	54	964
3,649	2,390	—	6,589
107	—	—	107
5,935	25,138	2,833	61,025
544	—	—	890
26	13	686	43,891
570	13	686	44,781
6,505	25,151	3,519	105,806
8	173	34	865
—	—	119	438
—	8	—	41
—	—	—	303
—	—	14	401
—	—	—	313
8	181	167	2,361
—	2,390	—	2,390
410	—	—	410
—	—	198	19,688
65	263	477	1,867
475	2,653	675	24,355
483	2,834	842	26,716
26	13	686	42,668
4,101	—	—	4,831
1,895	22,304	1,991	31,591
$6,022	$22,317	$2,677	$ 79,090

Combining Statement of Activities
Nonmajor Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
Component Units:				
Educational Broadcasting Authority	$11,402	$ 2,118	$1,567	$ (7,717)
Jobs Investment Trust	2,619	129	—	(2,490)
WV State Rail Authority	3,761	2,159	—	(1,602)
Solid Waste Management Board	2,183	2,301	—	118
Racing Commission	25,039	24,453	—	(586)
Public Defender Corporation	12,229	—	—	(12,229)
Total Component Units	$57,233	$31,160	$1,567	$(24,506)

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	$2,092	$ 4,988	$ 7,087	$ (630)	$ 9,504	$ 8,874
250	—	—	250	(2,240)	6,780	4,540
26	—	3,358	3,384	1,782	32,878	34,660
18	107	3,000	3,125	3,243	2,779	6,022
49	—	—	49	(537)	22,854	22,317
7	13	12,758	12,778	549	2,128	2,677
$357	$2,212	$24,104	$26,673	$ 2,167	$76,923	$79,090


STATE OF WEST VIRGINIA.
JUNE 20 1863
MONTANI SEMPER LIBERI.

STATISTICAL SECTION

EXPENDITURES
REVENUES
BONDS
DEBT SERVICE
DEMOGRAPHICS
MISCELLANEOUS

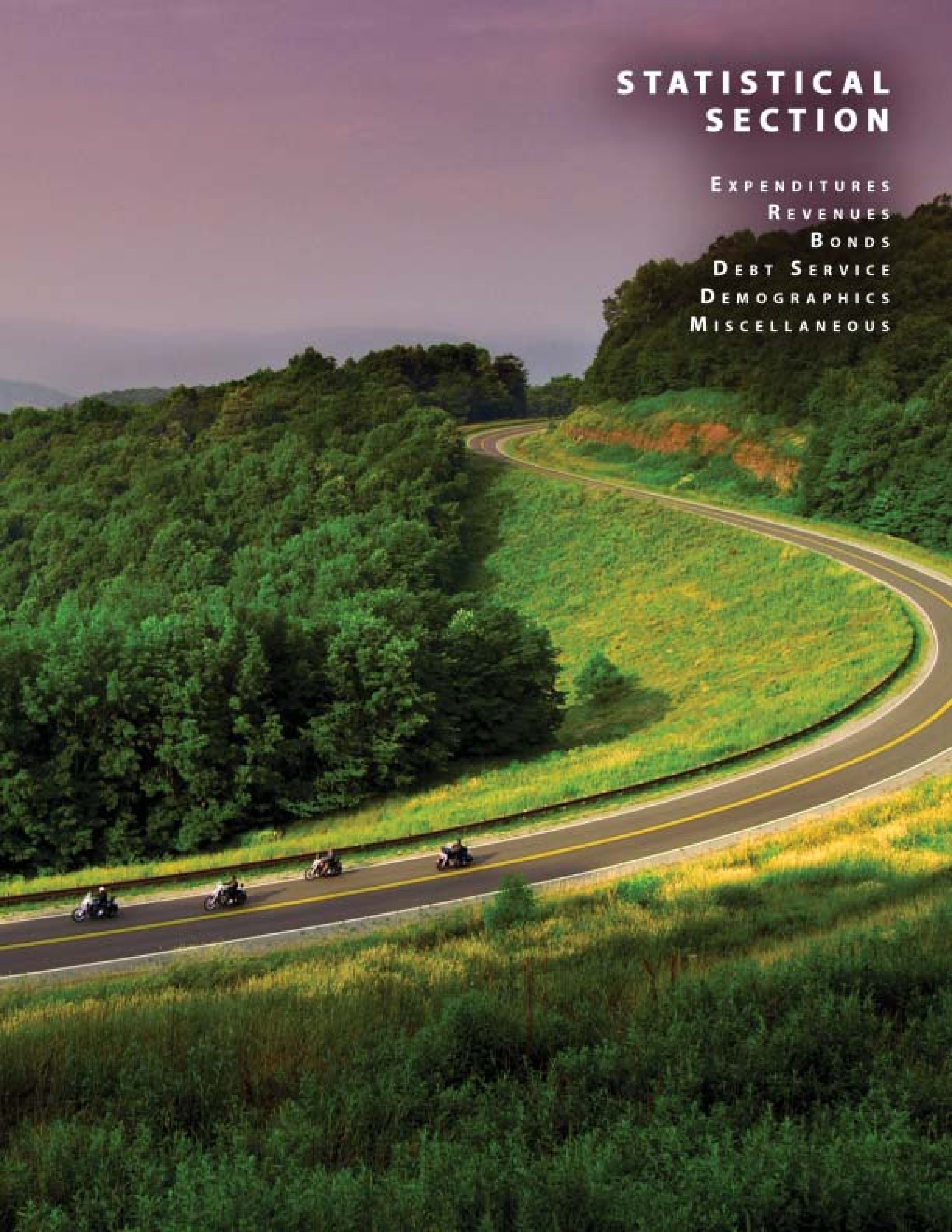


Table 1

Expenditures By Function
All Governmental Fund Types
For the Last Ten Fiscal Years
(Expressed in Thousands)

Function	2005	2004	2003	2002
Legislative	$ 27,594	$ 30,634	$ 28,901	$ 19,740
Judicial	84,283	81,577	77,816	73,824
Executive	122,415	115,418	113,661	125,116
Administration	87,833	87,834	87,109	75,563
Commerce*	286,647	273,748	234,672	207,759
Environmental Protection*	98,576	118,592	103,566	109,677
Employment Programs*	36,609	40,183	38,401	49,146
Education	2,423,094	2,323,733	2,316,665	1,822,346
Health and Human Resources	3,237,580	3,056,762	2,709,057	2,612,846
Military Affairs and Public Safety	609,215	338,907	293,611	280,315
Revenue	60,630	44,765	40,845	26,862
Transportation	573,184	531,214	541,219	825,011
Senior Services	29,455	29,230	28,676	30,584
Regulatory Boards and Commissions	27,561	44,680	31,213	24,878
Capital Outlay	490,195	573,295	535,008	447,941
Debt Service	176,177	140,166	136,854	124,576
Total Expenditures - All Governmental Fund Types	$8,371,048	$7,830,738	$7,317,274	$6,856,184

Prior to fiscal year 2002, this table included expenditures of the State's governmental fund types, which included the General, Special Revenue, Debt Service, and Capital Projects Funds. Beginning in fiscal year 2002, this table includes expenditures of the State's major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 expenditure amounts to the 2001 and prior amounts is affected.

*Employment Programs and Environmental Protection were previously reported in Commerce, Labor and Environmental Resources which is now Commerce.

2001	2000	1999	1998	1997	1996
$ 37,860	$ 20,056	$ 21,267	$ 18,340	$ 17,805	$ 17,548
65,270	60,326	55,657	51,257	48,967	42,324
110,349	108,915	103,452	104,687	95,161	65,204
75,329	49,602	39,986	41,764	36,285	42,304
173,114	171,260	182,801	171,751	163,532	142,094
110,616	55,949	80,726	76,101	80,883	86,330
40,101	91,720	35,912	31,740	42,611	44,487
1,775,773	1,721,402	1,596,285	1,562,866	1,482,875	1,452,287
2,322,313	2,276,733	2,093,493	2,127,728	2,028,874	2,028,868
238,627	216,189	224,876	184,831	160,700	150,266
100,551	82,994	86,235	75,322	72,323	75,688
407,736	400,893	386,229	364,950	394,555	367,288
—	—	—	—	—	—
46,975	44,829	77,522	69,906	83,028	85,715
814,191	725,123	593,753	586,367	595,910	432,319
115,687	123,080	134,597	100,143	98,497	100,945
$6,434,492	$6,149,071	$5,712,791	$5,567,753	$5,402,006	$5,133,667

Table 2

Revenues By Source
All Governmental Fund Types
For the Last Ten Fiscal Years
(Expressed in Thousands)

Sources	2005	2004	2003	2002	2001
Taxes:					
Personal Income	$1,170,202	$1,070,282	$1,038,181	$1,049,532	$1,023,536
Consumer Sales	978,115	963,327	917,072	922,882	878,355
Severance	287,774	211,236	193,680	187,287	194,223
Corporate Net Income	255,772	166,511	179,866	223,303	207,525
Business and Occupation	182,090	176,987	178,364	173,839	178,860
Medicaid	154,070	150,335	143,036	146,812	146,053
Insurance	103,415	99,925	94,045	88,631	80,834
Other	264,252	251,546	191,343	166,741	169,044
Total Taxes	3,395,690	3,090,149	2,935,587	2,959,027	2,878,430
Department of Highways:					
Gasoline and Motor Carrier Tax	499,654	303,934	296,842	300,964	299,326
License Fees	93,144	84,977	88,967	91,373	82,333
Automobile Privilege Tax	3,005	173,225	169,431	180,472	155,623
Other	4,000	7,870	6,388	8,345	438
Total Department of Highways	599,803	570,006	561,628	581,154	537,720
Federal Grants	3,235,199	3,119,073	2,868,461	2,733,567	2,527,788
Other Revenue	782,351	666,047	679,014	646,178	650,206
Total Revenues - All Governmental Fund Types	$8,013,043	$7,445,275	$7,044,690	$6,919,926	$6,594,144

Prior to fiscal year 2002, this table included revenues of the State’s governmental fund types, which included the General, Special Revenue, Debt Service, and Capital Projects Funds. Beginning in fiscal year 2002, this table includes revenues of the State’s major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 revenue amounts to the 2001 and prior amounts is affected.

Business Franchise tax was combined with Corporate Net Income tax in 2004.

This table has been revised.

2000	1999	1998	1997	1996
$ 985,976	$ 917,765	$ 871,803	$ 810,350	$ 756,367
878,690	852,815	817,406	797,575	762,927
169,914	180,775	204,891	187,997	180,238
223,736	253,219	224,752	253,885	241,436
166,883	182,268	180,475	183,393	188,920
134,274	127,497	124,458	122,439	115,510
69,110	71,765	70,349	71,061	68,818
165,924	170,164	147,394	142,518	130,023
2,794,507	2,756,268	2,641,528	2,569,218	2,444,239
292,402	295,166	291,013	275,400	268,240
88,517	85,446	84,823	77,436	79,571
153,927	143,356	134,354	126,157	120,455
437	300	529	283	331
535,283	524,268	510,719	479,276	468,597
2,284,824	1,959,378	2,021,678	1,932,627	1,868,401
705,920	684,599	700,983	724,850	716,939
$6,320,534	$5,924,513	$5,874,908	$5,705,971	$5,498,176

Table 3

Ratio of Outstanding General Obligation Bonds to Assessed Value and Net Debt Per Capita For the Last Ten Fiscal Years

(Expressed in Thousands - Except for Ratio and Per Capita Data)

			General Obligation Bonds				
For the Year Ended June 30	Population	Assessed Property Value	Total	Less Debt Service Fund	Net	Per Capita	Ratio of Bonds to Assessed Value
2005	1,819	$54,530,114	$798,490	$51,613	$746,877	$410.60	1.37%
2004	1,815	53,338,895	771,879	60,509	711,370	391.94	1.33%
2003	1,811	51,433,353	801,179	59,862	741,317	409.34	1.44%
2002	1,805	49,413,867	833,494	59,956	773,538	428.55	1.57%
2001	1,802	47,830,428	748,459	58,204	690,255	383.05	1.44%
2000	1,807	46,957,023	666,544	59,577	606,967	335.90	1.29%
1999	1,807	45,509,542	593,999	60,235	533,764	295.39	1.17%
1998	1,811	44,550,033	321,450	51,918	269,532	148.83	.61%
1997	1,815	42,639,651	267,165	57,050	210,115	115.77	.49%
1996	1,820	40,242,214	250,115	60,737	189,378	104.05	.47%

Note: All population numbers are estimates from the U.S. Census Bureau.

Source: West Virginia State Treasurer's Office, Department of Tax and Revenue, Survey of Current Business, Bureau of Economic Analysis, U.S. Department of Commerce, and West Virginia University Bureau of Business Research.

This table has been revised.

Table 4

Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Fund Revenues and Expenditures For the Last Ten Fiscal Years

(Expressed in Thousands - Except for Ratios)

For the Year Ended June 30	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
2005	$61,293	$6,652,787	0.92%	$6,910,500	0.89%
2004	68,112	6,138,779	1.11%	6,394,877	1.07%
2003	68,263	5,789,944	1.18%	5,933,970	1.15%
2002	70,524	5,615,628	1.26%	5,271,723	1.34%
2001	64,201	5,326,298	1.21%	4,886,306	1.31%
2000	69,261	5,103,826	1.36%	4,692,979	1.48%
1999	50,436	4,801,308	1.05%	4,391,088	1.15%
1998	52,428	4,750,405	1.10%	4,305,422	1.22%
1997	54,992	4,559,978	1.21%	4,140,777	1.33%
1996	54,834	4,444,846	1.23%	4,039,005	1.36%

This table has been revised.

Table 5

Revenue Bond Coverage
For the Last Ten Fiscal Years
(Expressed in Thousands - Except for Coverage)

Housing Development Fund*

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Current Year Debt Service Requirements: Principal	Interest	Total	Coverage
2005	$185,696	$ 7,448	$178,248	$20,050	$34,595	$54,645	3.26
2004	236,521	7,141	229,380	19,885	38,695	58,580	3.92
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	127,353	6,367	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
1996	111,276	3,687	107,589	17,960	43,287	61,247	1.76

Water Development Authority*

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Principal	Interest	Total	Coverage
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	1.23
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
1996	16,723	377	16,346	2,180	12,238	14,418	1.13

Parkways, Economic Development and Tourism Authority**

Fiscal Year	Operating Revenue	Direct Operating Expense	Net Revenue Available For Debt Service	Total Debt Service	Coverage
2005	$57,571	$25,665	$31,906	$10,239	3.12
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
1996	47,327	24,051	23,276	11,138	2.09

*Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment.

@This includes retirement of revenue bonds.

**Only total debt service available.

Note: Higher Education revenue bond information is available from Higher Education Policy Commission.

Source: Water Development Authority, Housing Development Fund, Solid Waste Management Board, and Parkways, Economic Development and Tourism Authority.

Table 6
Demographic Statistics
For the Last Ten Calendar Years

Calendar Year	Total Population	Per Capita Personal Income	Unemployment Rate	Median Age
2004	1,815,000	$25,872	5.3%	40.2
2003	1,811,000	24,542	6.1%	39.9
2002	1,802,000	23,841	6.1%	39.5
2001	1,801,000	23,256	4.9%	39.3
2000	1,807,000	21,861	5.5%	39.0
1999	1,812,000	20,691	6.6%	38.9
1998	1,817,000	20,234	6.6%	38.6
1997	1,819,000	19,351	6.9%	38.1
1996	1,823,000	18,527	7.5 %	37.7
1995	1,824,000	17,882	7.9 %	37.3

Source: Bureau of Employment Programs, West Virginia Development Office, U.S. Bureau of Economic Analysis and Bureau of the Census.

This table has been revised.

Table 7
Economic Characteristics
For the Last Ten Calendar Years

Calendar Year	Gross State Product	Personal Income
2004	$49,774,000,000	$46,966,000,000
2003	46,726,000,000	44,456,000,000
2002	45,259,000,000	43,305,000,000
2001	43,512,000,000	41,893,000,000
2000	41,690,000,000	39,506,000,000
1999	41,306,000,000	37,488,000,000
1998	39,692,000,000	36,738,000,000
1997	38,795,000,000	35,202,000,000
1996	37,220,000,000	33,771,000,000
1995	36,315,000,000	32,611,000,000

Source: U.S. Bureau of Economic Analysis, West Virginia University Bureau of Business Research.

This table has been revised.

Table 8
Property Values, Retail Sales, Bank Deposits, and Bank Loans For the Last Ten Calendar Years
(Expressed in Millions, Except for Bank Number Data)

			Banks			
Calendar Year Ended	Assessed Property Values	Retail Sales	Number	Deposits	Loans	Assets
2004	$54,530	$ N/A	66	$14,930	$12,717	$19,845
2003	53,338	18,500	74	14,473	11,545	18,979
2002	51,433	16,200	76	15,876	11,559	20,294
2001	49,414	15,300	75	14,317	10,810	18,117
2000	47,830	15,000	70	13,844	11,291	17,455
1999	46,957	14,619	82	17,291	14,792	23,088
1998	45,509	15,077	89	18,758	15,518	23,552
1997	44,550	14,484	100	17,452	13,408	21,590
1996	42,640	14,177	113	18,011	14,742	22,267
1995	40,242	13,616	118	17,138	13,481	21,265

Source: West Virginia Department of Tax and Revenue and West Virginia Division of Banking.

N/A Not Available

Table 9
Twenty-five Largest Private Sector Employers in West Virginia

Company

1. Wal-Mart Associates, Inc.
2. Charleston Area Medical Center, Inc.
3. West Virginia University Hospitals
4. Kroger Company
5. CSX/CSX Hotels, Inc.
6. American Electric Power
7. E. I. DuPont de Nemours and Company
8. Consolidation Coal Company
9. Verizon
10. ISG Weirton, Inc.
11. St. Mary's Hospital
12. Pilgrim’s Pride Corporation
13. Wheeling Hospital, Inc.
14. Eldercare Resources Corporation
15. Rite Aid of West Virginia, Inc.
16. Lowe’s Home Centers, Inc.
17. Cabell Huntington Hospital, Inc.
18. Allegheny Energy Service Corporation
19. Bob Evans Farms, Inc.
20. Mylan Pharmaceuticals, Inc.
21. Camden-Clark Memorial Hospital
22. Mentor Management, Inc. (The Mentor Network)
23. Mountaineer Park, Inc
24. BB&T Corporation
25. West Virginia University Medical Company (University Health Associates)

Source: West Virginia Bureau of Employment Programs, Office of Labor and Economic Research.

Table 10
Miscellaneous Public Education Statistics For the Last Ten School Years

School Year	Number of Schools	Net Enrollment	Number of Teachers	Pupil-Teacher Ratio
2004-05	784	279,457	19,809	14.1
2003-04	784	280,561	19,869	14.1
2002-03	794	281,591	19,925	14.1
2001-02	808	282,232	19,986	14.1
2000-01	818	285,785	20,764	13.8
1999-00	824	290,944	20,923	13.9
1998-99	834	296,559	20,849	14.2
1997-98	839	301,314	20,819	14.5
1996-97	867	304,424	20,888	14.6
1995-96	873	307,508	20,915	14.7

	Expenditure on Education Per Pupil in Daily Attendance			% Revenue From State Government		
School Year	U.S.	WV	WV Rank	U.S.	WV	WV Rank
2004-05	$9,102	$ 9,984	18	48.6%	59.3%	12
2003-04	8,724	10,071	14	49.1%	60.0%	14
2002-03	8,383	9,757	12	49.6%	59.7%	13
2001-02	8,087	9,056	14	50.1%	60.1%	14
2000-01	7,640	8,440	16	50.2%	60.1%	14
1999-00	7,316	7,992	16	50.2%	60.8%	13
1998-99	6,251	6,887	14	49.8 %	62.2 %	13
1997-98	6,548	7,110	14	49.1 %	61.6 %	11
1996-97	6,335	6,902	14	48.7 %	62.8 %	12
1995-96	6,133	6,556	15	48.1 %	62.8 %	11

Source: West Virginia Department of Education and National Education Association (NEA), “Rankings of the States;” West Virginia Research League.

Table 11

Miscellaneous Higher Education Statistics For the Last Ten School Years

Public Institutions

School Year	Net Enrollment	Degrees Awarded: Undergraduate	Graduate	Total
2004-05	82,845	10,904	3,059	13,963
2003-04	82,444	10,726	2,361	13,087
2002-03	81,080	9,927	2,912	12,839
2001-02	78,315	9,632	2,670	12,302
2000-01	76,050	9,439	2,825	12,264
1999-00	76,751	9,277	2,831	12,108
1998-99	76,307	9,206	2,818	12,024
1997-98	75,920	9,057	2,918	11,975
1996-97	74,836	9,197	2,626	11,823
1995-96	74,816	9,484	2,549	12,033

Private Institutions

School Year	Net Enrollment	Degrees Awarded: Undergraduate	Graduate	Total
2004-05	11,650	2,068	394	2,462
2003-04	11,065	2,224	133	2,357
2002-03	11,034	2,188	149	2,337
2001-02	10,066	1,860	161	2,021
2000-01	9,808	1,758	167	1,925
1999-00	9,837	1,761	162	1,923
1998-99	10,064	1,857	173	2,030
1997-98	10,271	1,796	196	1,992
1996-97	10,156	1,658	136	1,794
1995-96	10,366	1,799	122	1,921

Source: Higher Education Policy Commission and National Education Association.

Table 12
Miscellaneous Statistics
June 30, 2004

Date of Statehood	June 20, 1863
Form of Government	Constitutional Representative Government
Branches of Government	Legislative - Executive - Judicial
Land Area	24,282 square miles
Miles of State Highway	34,610
State Police Protection:	
Number of State Police Detachments	70
Number of State Police Troopers	662
Higher Education (State Supported):	
Number of Campuses	22
Number of Students	82,845
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	93
Acreage of Wildlife Management Areas (Owned and Leased)	353,627 acres

Source: Division of Highways, Division of Public Safety, Higher Education Policy Commission and Division of Natural Resources.


STATE OF WEST VIRGINIA.
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