

Audited Financial Statements

West Virginia Consolidated Public Retirement Board

Years Ended June 30, 2012 and 2011

West Virginia Consolidated Public Retirement Board

Audited Financial Statements

Years Ended June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
West Virginia Consolidated Public
Retirement Board
Charleston, West Virginia

We have audited the accompanying statements of plan net assets for the pension funds and statement of net assets of the internal service fund of the West Virginia Consolidated Public Retirement Board (the Board), a component unit of the State of West Virginia, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets of the pension funds, and statements of revenues, expenses, and changes in fund net assets, and cash flows of the internal service fund for the years then ended, which collectively comprise the Board's basic financial statements. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the pension funds and the internal service fund of the Board as of June 30, 2012 and 2011, and the respective changes in net assets of the pension funds, and the changes in financial position and cash flows of the internal service fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplemental information on pages 44 through 48 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing



the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gibbons & Kawash, A.C.

December 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Management of the West Virginia Consolidated Public Retirement Board (the Board) provides this discussion and analysis as an overview of the Board's financial activities for the fiscal years ended June 30, 2012 and June 30, 2011. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes to financial statements.

FINANCIAL HIGHLIGHTS

- The plan net assets (total assets minus total liabilities) of the Board at June 30, 2012 were \$10.82 billion, increasing nearly \$72 million (.67%) from the plan net assets at June 30, 2011. The net assets are held in trust to meet future benefit obligations.
- Contribution revenue for fiscal year 2012 totaled \$868,286,000 an increase of 2.06% compared to fiscal year 2011.
- Net investment income for fiscal year 2012 was \$104,433,000. During fiscal year 2012, the Board received a significantly lower investment return on its portfolio (down 94.09 percent compared to 2011, compared to a 51.18 percent increase in return from 2010 results to 2011 results.)
- Total benefits and refunds paid for fiscal year 2012 were \$955,411,000, an increase of 7.42 percent over fiscal year 2011 total benefits and refunds paid of \$889,385,000.
- Total administrative expenses for fiscal year 2012 were \$9,581,000, a 4.29% increase from fiscal year 2011 administrative expenses of \$9,187,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Board's financial statements consist of the *Statement of Plan Net Assets*, the *Statement of Changes in Plan Net Assets*, and the *Notes to the Financial Statements*. In addition, *Required Supplementary Information* is presented, which includes the *Management's Discussion and Analysis*.

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Assets*, or net assets held in trust for pension benefits, provides a measurement of the financial position of the Board as of the end of the fiscal year. The *Statement of Changes in Plan Net Assets* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the Board are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two financial statements, the reader should also review the *Schedule of Funding Progress* and the *Schedule of Employer Contributions* to gain an understanding of the funded status of the Board over time. This information provides an indication of the Board's ability to meet both the current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the Board, such as descriptions of the plans administered by the Board, including contribution and benefit provisions, and information about the accounting policies and investment activities.

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2012, the Board had plan net assets (total assets in excess of total liabilities) of \$10.82 billion, an increase of nearly \$72 million (.67%) from \$10.75 billion at June 30, 2011, following the fiscal year 2011 increase of over \$1.8 billion (20.17%) from the \$8.9 billion of plan net assets as of June 30, 2010. The assets of the Board consist primarily of investments. The increase in plan assets is primarily the result of strong investment returns in equity and fixed income markets. Condensed financial information comparing the Board's plan net assets for the past three fiscal years follows:

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

PLAN NET ASSETS (in thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>FY11-12 Percentage Change</u>	<u>June 30, 2010</u>	<u>FY11-10 Percentage Change</u>
<u>ASSETS</u>					
Cash	\$ 8,288	\$ 7,597	9.10 %	\$ 6,219	22.16 %
Investments at fair value	10,607,896	10,490,678	1.12 %	8,708,670	20.46 %
Contributions receivable	34,470	63,366	(45.60) %	40,477	56.55 %
Participant loans receivable	7,303	9,682	(24.57) %	11,771	(17.75) %
Miscellaneous revenue receivable	364	163	123.31 %	67	143.28 %
Due from State of West Virginia	<u>165,000</u>	<u>180,000</u>	(8.33) %	<u>180,000</u>	-
	<u>10,823,321</u>	<u>10,751,486</u>	0.67 %	<u>8,947,204</u>	20.17 %
<u>LIABILITIES AND PLAN NET ASSETS</u>					
Liabilities:					
Accrued expenses and other payables	<u>630</u>	<u>643</u>	(2.02) %	<u>893</u>	(28.00) %
Net assets held in trust for pension benefits	<u>\$ 10,822,691</u>	<u>\$ 10,750,843</u>	0.67 %	<u>\$ 8,946,311</u>	20.17 %

ANALYSIS OF REVENUES AND EXPENSES

Contributions to the Board had an increase of \$17.5 million (2.06%) over contributions for fiscal year 2011 due to the change in employer contribution rates effective July 1, 2011. With the decrease of net investment income of \$1.66 billion (-94.09%) for fiscal year 2012 compared to investment income for fiscal year 2011, the overall decrease in revenues for 2012 was 61.64% compared to revenues for fiscal year 2011.

Total benefits and refunds paid during the year ended June 30, 2012 were \$955,411,000, an increase of 7.42% over fiscal year 2011 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2011 were \$889,385,000 an increase of 8.28% over fiscal year 2010 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2012 is attributed to more retirees receiving benefits during this fiscal year. The increase in benefit expenses in fiscal year 2011 can also be attributed to more retirees receiving benefits during this fiscal year. Total refunds paid increased \$529,000 (1.88%) in fiscal year 2012 from fiscal year 2011. Total refunds paid had increased \$5,286,000 (23.10%) in fiscal year 2011 over fiscal year 2010 and were attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested.

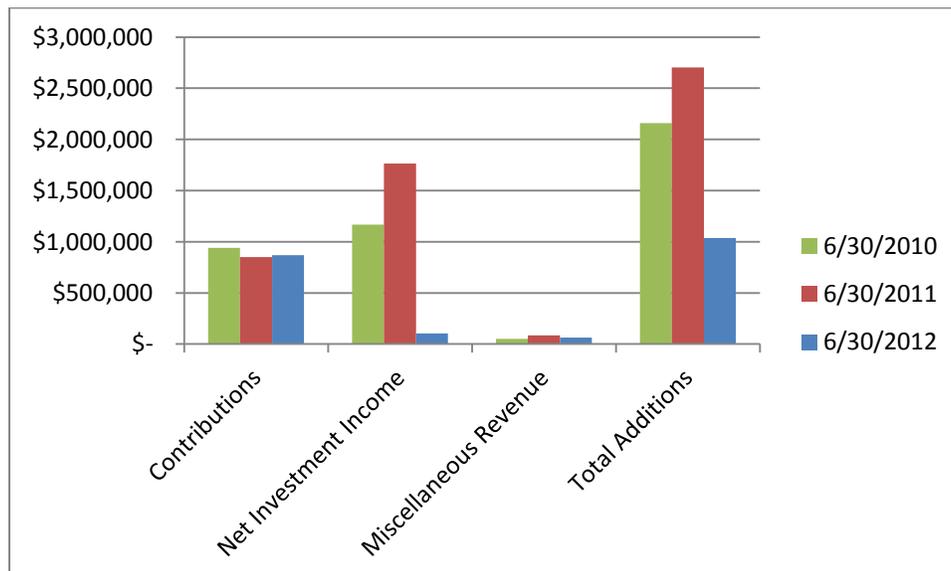
Administrative expenses for the year ended June 30, 2012 were \$9,581,000, an increase of 4.29% from fiscal year 2011 administrative expenses. The increase was primarily due to changes in the number of plan participants and budgetary increases deemed necessary for several expense areas. Administrative expenses for the year ended June 30, 2011 were \$9,187,000, a decrease of 3.36% over fiscal year 2010 administrative expenses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)**

CHANGES IN PLAN NET ASSETS (in thousands)

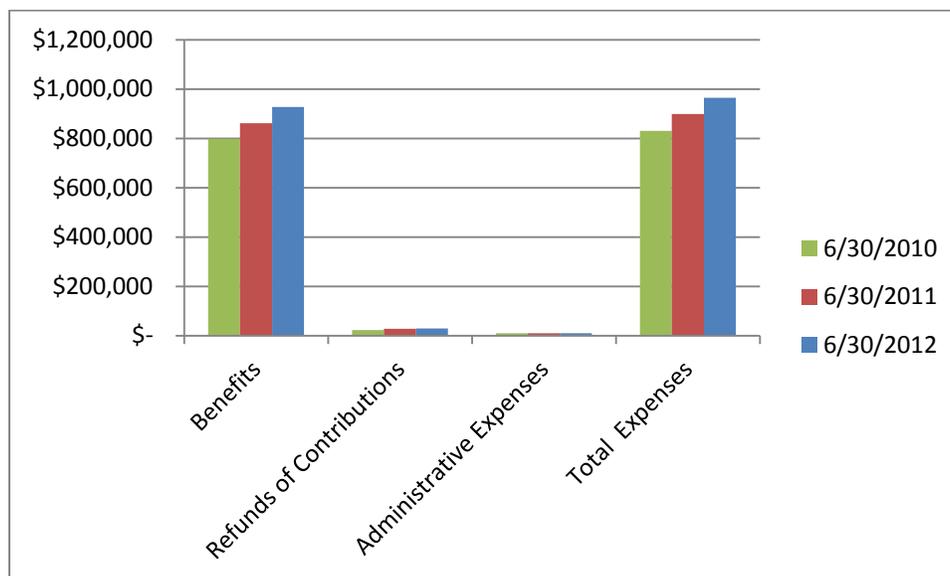
	2012	2011	FY12-Y11 Percentage Change	2010	FY11-Y10 Percentage Change
Additions:					
Contributions:					
Member contributions	\$ 168,466	\$ 162,116	3.92 %	\$ 177,284	(8.56) %
Employer contributions	699,820	688,645	1.62 %	761,924	(9.62) %
Total contributions	<u>868,286</u>	<u>850,761</u>	2.06 %	<u>939,208</u>	(9.42) %
Investment income:					
Net increase in fair value of investments	26,745	1,690,280	(98.42) %	1,110,065	52.27 %
Investment income	<u>77,688</u>	<u>75,388</u>	3.05 %	<u>57,880</u>	30.25 %
Net investment income	104,433	1,765,668	(94.09) %	1,167,945	51.18 %
Other income	<u>64,121</u>	<u>86,675</u>	(26.02) %	<u>52,328</u>	65.64 %
Total additions	<u>1,036,840</u>	<u>2,703,104</u>	(61.64) %	<u>2,159,481</u>	25.17 %
Deductions and transfers:					
Benefit expense	926,708	861,211	7.61 %	798,473	7.86 %
Refunds of contributions/withdrawals	28,703	28,174	1.88 %	22,888	23.10 %
Administrative expense	<u>9,581</u>	<u>9,187</u>	4.29 %	<u>9,506</u>	(3.36) %
Total deductions and transfers	<u>964,992</u>	<u>898,572</u>	7.39 %	<u>860,867</u>	8.15 %
Net increase in plan net assets	71,848	1,804,532	(96.02) %	1,328,614	35.82 %
Net assets held in trust for pension benefits:					
Beginning of year	<u>10,750,843</u>	<u>8,946,311</u>	20.17 %	<u>7,617,697</u>	17.44 %
End of year	<u>\$ 10,822,691</u>	<u>\$ 10,750,843</u>	0.67 %	<u>\$ 8,946,311</u>	20.17 %

REVENUES BY TYPE (in thousands)



**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)**

EXPENSES BY TYPE (in thousands)



ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

Economic Factors

The fiscal year ending June 30, 2012 was challenging for the capital markets as the world continues to struggle with the aftermath of the credit crisis of 2008. The defined benefit pension plans are funded with the expectation that they will return 7.5 percent on the invested assets. When that return is not achieved, there is an increase in the unfunded liability. When a return greater than 7.5 percent is achieved, there is a decrease in the unfunded liability. The turmoil in the capital markets in fiscal year 2009 and the subsequent negative return for invested assets increased the unfunded liability causing an increase in employer contributions.

The return for fiscal year 2012 fell short of the 7.5 percent rate. Investment returns were approximately 1.1 percent (using the Public Employees' Retirement System as a proxy for all long-term assets) in this difficult environment. This modest return in fiscal year 2012 follows two years of excellent returns of 20.7 and 16.0 percent, respectively. In aggregate, the three years ending June 30, 2012 have produced an annualized return of 12.3 percent. The ten-year return has increased to 6.8 percent. While it still lags the 7.5 percent long-term target rate assumed by the actuary for the defined benefit pension plans, we continue to see improvement. Still, it will likely take the world's economies many years to recover from the credit crisis of 2008, creating significant challenges in achieving investment performance targets.

CONTACTING THE BOARD

This report is designed to provide a financial overview of the Board to state legislators, members of the Board of Trustees, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue, S.E. Charleston WV 25304.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

STATEMENT OF PLAN NET ASSETS - PENSION FUNDS
(In Thousands)

June 30, 2012

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability and Retirement System	State Police Retirement System
<u>ASSETS</u>				
Cash	\$ 492	\$ -	\$ 1	\$ -
Investments at fair value	4,352,142	5,111,557	477,386	78,735
Contributions receivable	5,779	26,176	-	-
Participant loans receivable	-	6,875	-	-
Miscellaneous revenue receivable	2	90	-	-
Due from State of West Virginia	165,000	-	-	-
	<u>4,523,415</u>	<u>5,144,698</u>	<u>477,387</u>	<u>78,735</u>
<u>LIABILITIES AND PLAN NET ASSETS</u>				
Liabilities:				
Accrued expenses and other payables	<u>113</u>	<u>301</u>	<u>42</u>	<u>-</u>
Net assets held in trust for pension benefits (see schedule of funding progress)	<u>\$ 4,523,302</u>	<u>\$ 5,144,397</u>	<u>\$ 477,345</u>	<u>\$ 78,735</u>

The Accompanying Notes are an integral part of these Financial Statements.

Deputy Sheriff Retirement System	Judges' Retirement System	Emergency Medical Services Retirement System	Municipal Police Officers & Firefighters Retirement System	Teachers' Defined Contribution Retirement System	Total
\$ 9	\$ -	\$ -	\$ -	\$ 7,786	\$ 8,288
116,281	126,265	35,153	189	310,188	10,607,896
719	-	331	13	1,452	34,470
428	-	-	-	-	7,303
89	-	-	-	183	364
-	-	-	-	-	165,000
<u>117,526</u>	<u>126,265</u>	<u>35,484</u>	<u>202</u>	<u>319,609</u>	<u>10,823,321</u>
-	-	1	-	173	630
<u>\$ 117,526</u>	<u>\$ 126,265</u>	<u>\$ 35,483</u>	<u>\$ 202</u>	<u>\$ 319,436</u>	<u>\$ 10,822,691</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

STATEMENT OF PLAN NET ASSETS - PENSION FUNDS

(In Thousands)

June 30, 2011

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability and Retirement System	State Police Retirement System
<u>ASSETS</u>				
Cash	\$ 577	\$ 1	\$ 1	\$ -
Investments at fair value	4,359,025	5,010,213	482,005	70,756
Contributions receivable	5,394	55,352	-	-
Participant loans receivable	-	9,244	-	-
Miscellaneous revenue receivable	5	5	-	-
Due from State of West Virginia	180,000	-	-	-
Total assets	<u>4,545,001</u>	<u>5,074,815</u>	<u>482,006</u>	<u>70,756</u>
<u>LIABILITIES AND PLAN NET ASSETS</u>				
Liabilities:				
Accrued expenses and other payables	<u>376</u>	<u>150</u>	<u>12</u>	<u>-</u>
Net assets held in trust for pension benefits (see schedule of funding progress)	<u>\$ 4,544,625</u>	<u>\$ 5,074,665</u>	<u>\$ 481,994</u>	<u>\$ 70,756</u>

The Accompanying Notes are an integral part of these Financial Statements.

Deputy Sheriff Retirement System	Judges' Retirement System	Emergency Medical Services Retirement System	Municipal Police Officers & Firefighters Retirement System	Teachers' Defined Contribution Retirement System	Total
\$ -	\$ -	\$ 116	\$ -	\$ 6,902	\$ 7,597
112,488	124,587	31,963	61	299,580	10,490,678
607	-	289	4	1,720	63,366
438	-	-	-	-	9,682
58	-	-	-	95	163
-	-	-	-	-	180,000
<u>113,591</u>	<u>124,587</u>	<u>32,368</u>	<u>65</u>	<u>308,297</u>	<u>10,751,486</u>
<u>17</u>	<u>4</u>	<u>2</u>	<u>-</u>	<u>82</u>	<u>643</u>
<u>\$ 113,574</u>	<u>\$ 124,583</u>	<u>\$ 32,366</u>	<u>\$ 65</u>	<u>\$ 308,215</u>	<u>\$ 10,750,843</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD
STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION FUNDS
(In Thousands)

Years Ended June 30, 2012

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability and Retirement System	State Police Retirement System
Additions:				
Contributions:				
Member contributions	\$ 59,200	\$ 91,976	\$ 724	\$ 3,375
Employer contributions	<u>191,012</u>	<u>482,236</u>	<u>1,207</u>	<u>4,544</u>
Total contributions	<u>250,212</u>	<u>574,212</u>	<u>1,931</u>	<u>7,919</u>
Investment income:				
Net increase in fair value of investments	11,436	9,672	630	228
Investment income	<u>34,686</u>	<u>36,446</u>	<u>3,751</u>	<u>596</u>
Net investment income	46,122	46,118	4,381	824
Other income:				
	<u>1,859</u>	<u>38,874</u>	<u>22,767</u>	<u>79</u>
Total additions	<u>298,193</u>	<u>659,204</u>	<u>29,079</u>	<u>8,822</u>
Deductions and transfers:				
Benefit expense	304,263	577,427	33,631	477
Refunds of contributions/withdrawals	10,844	7,783	47	327
Transfers to (from) plans	(96)	53	-	-
Administrative expenses	<u>4,505</u>	<u>4,209</u>	<u>50</u>	<u>39</u>
Total deductions and transfers	<u>319,516</u>	<u>589,472</u>	<u>33,728</u>	<u>843</u>
Net increase in plan net assets	(21,323)	69,732	(4,649)	7,979
Net assets held in trust for pension benefits:				
Beginning of year	<u>4,544,625</u>	<u>5,074,665</u>	<u>481,994</u>	<u>70,756</u>
End of year	<u>\$ 4,523,302</u>	<u>\$ 5,144,397</u>	<u>\$ 477,345</u>	<u>\$ 78,735</u>

The Accompanying Notes are an integral part of these Financial Statements.

Deputy Sheriff Retirement System	Judges' Retirement System	Emergency Medical Service Retirement System	Municipal Police Officers & Firefighters Retirement System	Teachers' Defined Contribution Retirement System	Total
\$ 3,567	\$ 706	1,838	\$ 72	7,008	\$ 168,466
<u>5,431</u>	<u>3,954</u>	<u>2,272</u>	<u>72</u>	<u>9,092</u>	<u>699,820</u>
<u>8,998</u>	<u>4,660</u>	<u>4,110</u>	<u>144</u>	<u>16,100</u>	<u>868,286</u>
302	262	92	4	4,119	26,745
<u>951</u>	<u>989</u>	<u>269</u>	<u>-</u>	<u>-</u>	<u>77,688</u>
1,253	1,251	361	4	4,119	104,433
<u>534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>64,121</u>
<u>10,785</u>	<u>5,911</u>	<u>4,471</u>	<u>148</u>	<u>20,227</u>	<u>1,036,840</u>
5,985	4,274	651	-	-	926,708
762	-	664	10	8,266	28,703
-	(51)	-	-	94	-
<u>86</u>	<u>6</u>	<u>39</u>	<u>1</u>	<u>646</u>	<u>9,581</u>
<u>6,833</u>	<u>4,229</u>	<u>1,354</u>	<u>11</u>	<u>9,006</u>	<u>964,992</u>
3,952	1,682	3,117	137	11,221	71,848
<u>113,574</u>	<u>124,583</u>	<u>32,366</u>	<u>65</u>	<u>308,215</u>	<u>10,750,843</u>
<u>\$ 117,526</u>	<u>\$ 126,265</u>	<u>\$ 35,483</u>	<u>\$ 202</u>	<u>\$ 319,436</u>	<u>\$ 10,822,691</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD
STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION FUNDS
(In Thousands)

Years Ended June 30, 2011

	Public Employees' Retirement System	Teachers' Retirement System	Public Safety Death, Disability and Retirement System	State Police Retirement System
Additions:				
Contributions:				
Member contributions	\$ 57,714	\$ 87,697	\$ 833	\$ 3,065
Employer contributions	<u>160,493</u>	<u>501,103</u>	<u>1,389</u>	<u>4,570</u>
Total contributions	<u>218,207</u>	<u>588,800</u>	<u>2,222</u>	<u>7,635</u>
Investment income:				
Net increase in fair value of investments	722,044	795,227	78,478	10,677
Investment income	<u>35,258</u>	<u>33,701</u>	<u>3,750</u>	<u>545</u>
Net investment income	757,302	828,928	82,228	11,222
Other income:				
	<u>1,030</u>	<u>60,569</u>	<u>24,356</u>	<u>126</u>
Total additions	<u>976,539</u>	<u>1,478,297</u>	<u>108,806</u>	<u>18,983</u>
Deductions and transfers:				
Benefit expense	284,587	535,010	31,206	443
Refunds of contributions/withdrawals	9,880	7,614	-	482
Transfers to (from) plans	(368)	418	-	-
Administrative expenses	<u>4,403</u>	<u>4,130</u>	<u>50</u>	<u>37</u>
Total deductions and transfers	<u>298,502</u>	<u>547,172</u>	<u>31,256</u>	<u>962</u>
Net increase in plan net assets	678,037	931,125	77,550	18,021
Net assets held in trust for pension benefits:				
Beginning of year	<u>3,866,588</u>	<u>4,143,540</u>	<u>404,444</u>	<u>52,735</u>
End of year	<u>\$ 4,544,625</u>	<u>\$ 5,074,665</u>	<u>\$ 481,994</u>	<u>\$ 70,756</u>

The Accompanying Notes are an integral part of these Financial Statements.

Deputy Sheriff Retirement System	Judges' Retirement System	Emergency Medical Service Retirement System	Municipal Police Officers & Firefighters Retirement System	Teachers' Defined Contribution Retirement System	Total
\$ 3,505	\$ 622	\$ 1,894	\$ 31	6,755	\$ 162,116
<u>4,221</u>	<u>3,954</u>	<u>2,264</u>	<u>31</u>	<u>10,620</u>	<u>688,645</u>
<u>7,726</u>	<u>4,576</u>	<u>4,158</u>	<u>62</u>	<u>17,375</u>	<u>850,761</u>
18,171	20,219	4,871	-	40,593	1,690,280
<u>901</u>	<u>995</u>	<u>238</u>	<u>-</u>	<u>-</u>	<u>75,388</u>
19,072	21,214	5,109	-	40,593	1,765,668
<u>542</u>	<u>-</u>	<u>45</u>	<u>-</u>	<u>7</u>	<u>86,675</u>
<u>27,340</u>	<u>25,790</u>	<u>9,312</u>	<u>62</u>	<u>57,975</u>	<u>2,703,104</u>
5,714	4,014	237	-	-	861,211
659	-	376	-	9,163	28,174
-	-	(43)	-	(7)	-
<u>85</u>	<u>7</u>	<u>38</u>	<u>-</u>	<u>437</u>	<u>9,187</u>
<u>6,458</u>	<u>4,021</u>	<u>608</u>	<u>-</u>	<u>9,593</u>	<u>898,572</u>
20,882	21,769	8,704	62	48,382	1,804,532
<u>92,692</u>	<u>102,814</u>	<u>23,662</u>	<u>3</u>	<u>259,833</u>	<u>8,946,311</u>
<u>\$ 113,574</u>	<u>\$ 124,583</u>	<u>\$ 32,366</u>	<u>\$ 65</u>	<u>\$ 308,215</u>	<u>\$ 10,750,843</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND
(In Thousands)

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets:		
Cash with the State Treasurer	\$ 16,393	\$ 13,957
Miscellaneous receivable	<u>173</u>	<u>82</u>
Total current assets	<u>16,566</u>	<u>14,039</u>
Capital assets:		
Software, net of depreciation	<u>944</u>	<u>723</u>
Total assets	<u>\$ 17,510</u>	<u>\$ 14,762</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued expenses and other payables	<u>\$ 389</u>	<u>\$ 362</u>
Noncurrent liabilities:		
Compensated absences	181	176
Other post-employment benefits payable	<u>2,060</u>	<u>1,454</u>
Total noncurrent liabilities	<u>2,241</u>	<u>1,630</u>
Total liabilities	<u>2,630</u>	<u>1,992</u>
Net Assets:		
Net assets, unrestricted	13,936	12,047
Invested in capital assets	<u>944</u>	<u>723</u>
Total net assets	<u>\$ 14,880</u>	<u>\$ 12,770</u>

The Accompanying Notes are an integral part of these Financial Statements.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - INTERNAL SERVICE FUND

(In Thousands)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Fees received for administrative services	<u>\$ 9,582</u>	<u>\$ 9,187</u>
Operating expenses:		
Administrative	<u>7,472</u>	<u>7,479</u>
Change in net assets	<u>2,110</u>	<u>1,708</u>
Net assets, beginning of year	<u>12,770</u>	<u>11,062</u>
Net assets, end of year	<u>\$ 14,880</u>	<u>\$ 12,770</u>

The Accompanying Notes are an integral part of these Financial Statements.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND
(In Thousands)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 9,491	\$ 9,670
Cash paid to employees	(2,405)	(2,356)
Cash paid to suppliers	<u>(4,337)</u>	<u>(4,458)</u>
Net cash provided by operating activities	<u>2,749</u>	<u>2,856</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(313)</u>	<u>(290)</u>
Increase in cash and cash equivalents	2,436	2,566
Cash and cash equivalents, beginning of year	<u>13,957</u>	<u>11,391</u>
Cash and cash equivalents, end of year	<u>\$ 16,393</u>	<u>\$ 13,957</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 2,110	\$ 1,708
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	92	62
Change in assets and liabilities:		
(Increase) decrease in miscellaneous receivable	(91)	483
Increase (decrease) in accrued expenses and other payables	27	1
Decrease in compensated absences	5	(5)
Increase in other post-employment benefits payable	<u>606</u>	<u>607</u>
Net cash provided by operating activities	<u>\$ 2,749</u>	<u>\$ 2,856</u>

The Accompanying Notes are an integral part of these Financial Statements.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATIONReporting Entity

During fiscal year 1991, the West Virginia State Legislature created the Consolidated Public Retirement Board (the Board) to administer nine of the State of West Virginia's ten retirement plans. The nine retirement plans included within these financial statements are the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), the Public Safety Death, Disability and Retirement System (PSDDRS), the State Police Retirement System (SPRS), the Deputy Sheriff Retirement System (DSRS), the Judges' Retirement System (JRS), the Emergency Medical Services Retirement System (EMSRS), Municipal Police Officers and Firefighters Retirement System (MPFRS) and the Teachers' Defined Contribution Retirement System (TDCRS). The Total Pension Funds column included in the statements of plan net assets and statements of changes in plan net assets is for informational purposes only. The net assets of each plan are only available to satisfy the obligations of that plan. The Board is a component unit of the State of West Virginia (the State). The Governmental Employees Deferred Compensation Plan is administered by the West Virginia State Treasurer's Office and has been excluded from these financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

The Internal Service Fund (the Fund) is used for the administration of all plans administered by the Board. The Fund receives a service fee from each plan based upon the number of participants included in the plan. These fees are legally restricted for the purpose of administering the plans and are not available for any other purpose.

The Board is managed by a Board of Trustees, which consists of, by virtue of their position, the Governor, State Auditor, State Treasurer, and Secretary of the Department of Administration, together with the following gubernatorial appointments that are subject to the advice and consent of the State Senate: four residents of the State who are not participants in the retirement plans, one State and one non-State employee participant in PERS, and one participant each from TRS, PSDDRS, SPRS, DSRS, EMSRS, MPFRS and TDCRS.

Pursuant to the West Virginia Code, the Board submits a detailed budgetary schedule of administrative expenses to the Secretary of the Department of Administration prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan but does not constitute a legally adopted budget.

Basis of Accounting

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles for governmental units. The accompanying pension fund financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period when contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The Internal Service Fund financial statements have also been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The Board's assets are held primarily in accounts maintained by the State Treasurer, the West Virginia Investment Management Board (the IMB), and the third-party administrator of its defined contribution plan.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION (Continued)Cash

The State Treasurer has statutory responsibility for the daily cash management activities of the state's agencies, departments, boards and commissions. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

Investments

All defined benefit plan funds not required to meet disbursement needs are invested in accordance with the West Virginia Code, as well as policies established by the IMB. The IMB has established various investment pools to provide for the investment of the defined benefit plan assets. These investment pools are structured as multiparticipant variable net asset funds.

Investments of the IMB Short-term Fixed Income pool are carried at amortized cost, which approximates fair value. The investments in the other IMB pools, except as noted below, are carried at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources. The IMB invests in private equity, real estate, and hedge funds, which are not publicly traded, and are carried at estimated fair value as provided by the IMB funds' management. The IMB may, in addition, consider other factors in assessing the fair value of these investments. Because these investments are not marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investment existed. Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded. Interest rate swap values are based on market values received from third parties or are determined by valuation models. Foreign currency forward contracts are valued at either spot or forward month-end exchange rates. Investments in commingled investment pools are valued at the reported unit values of the individual funds as provided to the IMB fund's management.

The TDCRS investments are held by an investment company which also serves as the third party administrator for the plan. As prescribed by West Virginia Code, the TDCRS investments are allocated to participant accounts and the participants direct the investment of their individual account balances by selecting from a list of plan mutual funds or a long term fixed investment option.

The TDCRS investments are carried at fair value as determined by a third-party pricing service utilized by an investment management company. Investment income for the TDCRS is determined monthly and distributed to the individual participant accounts.

Contributions Receivable

Contributions receivable represent funds owed to the Board from other government employer entities participating in the various retirement plans.

Participant Loans Receivable

The TRS makes loans to its members, hired prior to July 1, 2005, up to the lesser of one-half of a member's accumulated contributions or \$8,000, at an interest rate indexed to the interest rate used by the Board for determining actuarial contributions levels. TRS loans require repayment over varying terms, with a maximum term of five years.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION (Continued)Participant Loans Receivable (Continued)

During the 2008 First Special Session, the West Virginia Legislature passed House Bill 101 regarding retirement benefits for teachers and educational service personnel which became effective Sunday, March 16, 2008. The legislation provided an opportunity for members of the Teachers' Defined Contribution Retirement System (TDCRS) to elect to transfer to the West Virginia Teachers' Retirement System (TRS). The transfer occurred on July 1, 2008 and a total of 15,152 TDCRS members transferred to TRS. These members were granted 75% service credit under TRS for their years of service in TDCRS. These members were also granted a one time opportunity to receive a loan in order to purchase the additional 25% service credit at a 7.5% interest rate and with a maximum term of five years. The last day to receive such a loan was June 30, 2010.

The DSRS also makes loans to its members, hired prior to July 1, 2005, up to the lesser of one-half of a member's accumulated contributions or \$8,000, at an interest rate indexed to the interest rate used by the Board for determining actuarial contributions levels. DSRS loans require repayment over varying terms, with a maximum term of five years.

Accrued Expenses and Other Payables

Accrued expenses and other payables primarily represent retirement annuity amounts due to new retirees.

Compensated Absences

Liabilities for compensated absences (annual leave) are recorded for an employees' right to receive compensation for future absences. When an employee is separated from employment with the Board for reasons other than retirement, all sick leave credited to that employee is considered nonvested and no reimbursement to the employee is provided. Accrued sick leave, if any, existing for employees upon their retirement, may be used either to extend benefits provided by the West Virginia Public Employees Insurance Agency or to increase retirement benefits. Other post-employment benefits other than pensions are described in Note 5.

Capital Assets

The Board does not record any capital assets with a value of less than \$5,000 per asset. The only asset currently capitalized consists of agency developed software, which has an estimated useful life of ten years.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of actuarial accrued liabilities, contingent assets, and contingent liabilities as of the financial statement date, and the reported amounts of additions and deductions for the reporting period. Actual amounts could differ from those estimates.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION (Continued)Accounting Estimates (Continued)

The various retirement plans utilize various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of plan net assets. Changes in the value of investment securities could affect the future funding status of the plans or require additional contributions to maintain the current funding status.

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Funding policies for all plans have been established by and are changed from time-to-time by action of the State Legislature. While contribution rates are legislatively determined, actuarial valuations are performed to assist the Board and the State Legislature in determining contribution rates. The following information is provided for general information purposes only. Plan participants should refer to the respective West Virginia State Code Section for more complete information.

Defined Benefit PlansPublic Employees' Retirement System

Plan Description - PERS is a multiple employer defined benefit cost sharing public employee retirement system covering 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 number of participating local government employers as of June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Cities and towns	105	105
Counties	55	55
Special districts	<u>371</u>	<u>370</u>
	<u>531</u>	<u>530</u>

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature. In certain circumstances, this Article also permits members of TRS to transfer accumulated service credit and member contributions into PERS.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Public Employees' Retirement System (Continued)

Contributions - Per Chapter 5, Article 10, members contribute 4.5% of annual earnings. State and non-state governmental employers' contribution rates were 14.5% and 12.5% of covered employees' annual earnings for fiscal years ending June 30, 2012 and 2011, respectively. Effective July 1, 2012 employer contribution rates will be reduced to 14% of members annual earnings. Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the Board. In addition, certain additional contributions of approximately \$908,000 and \$0 were made during the years ended June 30, 2012 and 2011, respectively, representing extra appropriations to pay off the unfunded liability. Employer contributions from State and non-State agencies for the fiscal years ended June 30, 2012 and 2011, were (in thousands):

	<u>2012</u>	<u>2011</u>
State	\$ 130,831	\$ 109,448
Non-State	<u>60,181</u>	<u>51,045</u>
	<u>\$ 191,012</u>	<u>\$ 160,493</u>

Teachers' Retirement System

Plan Description - TRS is a multiple employer defined benefit cost sharing public employee retirement system covering all full-time employees of the 55 county public school systems in the State and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991. However, effective July 1, 2005, all new employees hired for the first time are required to participate in TRS.

During the 2008 First Special Session, the West Virginia Legislature passed House Bill 101 regarding retirement benefits for teachers and educational service personnel which became effective Sunday, March 16, 2008. The legislation provided an opportunity for members of the Teachers' Defined Contribution Retirement System (TDCRS) to elect to transfer to the West Virginia Teachers' Retirement System (TRS). The transfer occurred on July 1, 2008 and a total of 15,152 TDCRS members transferred to TRS.

TRS provides retirement benefits as well as death and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Teachers' Retirement System (Continued)

Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

Contributions - A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined. Employers make the following contributions:

The State, county boards of education, and other employers contribute 15% of gross salary of their TRS members hired prior to July 1, 1991. The State, county boards of education, and other employers contribute 7.5% of the gross salary of their TRS covered employees hired for the first time after July 1, 2005 and for those TDCRS members who selected to transfer to TRS effective July 1, 2008. The other employers and county boards of education, utilizing funds made available through the State's School Aid Formula (SAF) contribute 7.5% of the gross salary of their TDCRS covered employees. In addition, the State contributes a certain percentage of fire insurance premiums paid by State residents to assist in extinguishing the TRS unfunded liability within 40 years of June 30, 1994. In addition, certain additional contributions of approximately \$374,711,708 and \$378,671,497 were made during the years ended June 30, 2012 and 2011, respectively, representing extra appropriations to pay off the unfunded liability.

Public Safety Death, Disability and Retirement System

Plan Description - PSDDRS is a single employer defined benefit public employee retirement system covering all West Virginia State Police (State Police) hired on or before March 11, 1994. This plan is closed to new entrants.

PSDDRS provides retirement benefits as well as death and disability benefits. A member is eligible for normal retirement at age 50 after 20 years of contributory service, or at any age upon completion of 25 years of service. There is no vesting in the State's contributions prior to ten years of service. Benefits payable to members retiring prior to age 50 are deferred until the normal retirement date. The annual retirement benefit is 5.5% of the members' aggregate salary, but not less than \$6,000 per year. Total service related disability benefits are equal to the member's annual salary, but not less than \$15,000 per year. Aggregate salary is the total salary paid to a member during his or her period of service, which may include up to 5 years of active military service credited at the average departmental salary. Aggregate salary for purposes of determining disability benefits may include salary that would have been earned had the participant served at least 25 years notwithstanding the disability. An annual cost-of-living adjustment of 3.75% is granted to retirees and beneficiaries. For service-connected total disability retirees, the adjustment begins at age 65. A member who terminates employment is entitled to a refund of his or her contributions plus interest.

Contributions - PSDDRS funding policy provides for member contributions based on 9% of their annual earnings. The State makes contributions based on 15% of the annual payroll of State Police, as well as contributing all revenue generated by the sale of traffic accident reports, criminal investigation reports and other fees. In addition, certain additional contributions of approximately

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Public Safety Death, Disability and Retirement System (Continued)

\$22,051,000 and \$23,605,000 were made during the years ended June 30 2012 and 2011, respectively, representing extra appropriations to pay off the unfunded liability. Contributions, as a percentage of payroll for members and the employer, are established by State law and are not actuarially determined.

State Police Retirement System

Plan Description - SPRS is a single employer defined benefit public employee retirement system that was established for all State Police hired on or after March 12, 1994. SPRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 50 with 25 years of service or age 52 with 20 years of credited service. A member is eligible for a reduced benefit with 20 years of credited service and retiring before age 52. The annual regular retirement benefit, paid monthly, is equal to 2.75% of the final average salary multiplied by the years of service. Final average salary is the average of the five highest calendar years of earnings during the last ten years of earnings. Annual retirement annuity adjustments are 1.0% for regular retirement and are payable on July 1 of each year after the member reaches 63 years of age.

Contributions - Members contribute 13% of annual base salary. Employer contribution rates were 17.5% and 19.5% of covered employees' annual base salary for fiscal years ending June 30, 2012 and 2011, respectively. Effective July 1, 2012 employer contribution rates will be reduced to 15.5% of members' annual earnings.

Chapter 15, Article 2 and Article 2A of the West Virginia State Code assigns the authority to establish and amend the provisions of the PSDDRS and SPRS plans to the State Legislature.

Deputy Sheriff Retirement System

Plan Description - DSRS, a multiple employer defined benefit cost sharing public employee retirement system, was established for all deputy sheriffs hired by all 55 county governments on or after July 1, 1998. The DSRS was also made available to any deputy sheriff employed in covered employment participating in PERS on the effective date so long as he/she made notification in writing before January 31, 1999, to both the County Commission in the county in which he/she was employed and the Board of his/her desire to transfer to the DSRS. Approximately 600 deputy sheriffs elected such transfer and as a result, approximately \$28,638,000 of accumulated member and employer contributions and interest were transferred from PERS to DSRS in fiscal year 1999, in accordance with Chapter 7, Article 14D of the West Virginia State Code.

DSRS provides retirement as well as death and disability benefits. A member is eligible for normal retirement under the following circumstances:

1. Attainment of the age of 50 years and completion of 20 or more years of service
2. Member is in covered employment, has attained the age of 60 years, and has completed five or more years of service
3. Attainment of the age of 62 years and has completed five or more years of service

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Deputy Sheriff Retirement System (Continued)

The annual regular retirement benefit is equal to 2.25% of a member's final average salary multiplied by the member's years of credited service. Final average salary refers to the average of the highest annual compensation received for covered employment by the member during any five consecutive plan years within the member's last ten years of service. A member may elect to receive retirement income payments equal to his/her accrued benefit in the normal form or in a variety of annuity options. The normal form signifies a monthly annuity which is 1/12 of the amount of a members accrued benefit which is payable for the member's life.

Benefit payments did not begin prior to January 1, 2000, except benefit payments resulting from disability.

Chapter 7, Article 14D of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

Contributions - Members contribute 8.5% of monthly base salary, and the Sheriff's Office/County Commission of the County in which the member is employed contributed an additional 13% and 10.5% of the member's monthly salary during years ended June 30, 2012 and 2011, respectively. Employer contributions will remain at 13% of the member's monthly salary during the fiscal year ending June 30, 2013. In addition, the Sheriff's Office/County Commissions contribute certain fees charged for reports and other services provided by the sheriff's offices.

Judges' Retirement System

Plan Description - JRS is a single employer defined benefit public employee retirement system covering State judges and justices who elect to participate. JRS provides retirement as well as death and disability benefits. A member who was appointed or elected to the bench prior to July 2, 2005 is eligible for normal retirement upon the attainment of 24 years of service of which at least 12 years is as a sitting judge or justice, 16 years of service at age 65 of which at least 12 years is as a sitting judge or justice, or 8 full years of service after age 65. A member who was appointed or elected to the bench on or after July 2, 2005 is eligible for normal retirement upon the attainment of 24 years of service of which at least 14 years is as a sitting judge or justice, or 16 years of service at age 65 of which 14 years is as a sitting judge or justice. A member on the bench prior to July 2, 2005 is eligible for a deferred benefit upon termination of service prior to normal retirement provided the member completes 16 years of service of which 12 years of service is as a sitting judge or justice. A member of the bench on or after July 2, 2005 is eligible for a deferred benefit upon termination of service prior to normal retirement provided the member completes 16 years of service of which 14 years of service are as a sitting judge or justice.

The annual benefit paid to judges and justices on the bench prior to July 2, 2005 is 75% of the current annual salary of the office from which the participant retires, with surviving spouse and dependent child benefits. This benefit is proportionally increased upon increase in salary for active sitting judges and justices.

The annual benefit paid to judges and justices on the bench on or after July 2, 2005 is 75% of the member's final average salary. Final average salary means the average of the highest thirty-six consecutive month's compensation received as a judge or justice. No increases in benefits are given by virtue of increase in salary of active sitting judges or justices.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Judges' Retirement System (Continued)

Chapter 51, Article 9 of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

Contributions - JRS funding policy provides for member contributions based on 10.5% of their annual earnings. This policy also provides for periodic employer contributions at varying amounts appropriated annually by the State Legislature. However, annual appropriations are determined in consideration of the most recent actuarial valuation. Any participant who terminates before becoming eligible for benefits may elect to withdraw his or her contributions without interest.

Emergency Medical Services Retirement System (EMSRS)

Plan Description - The EMSRS Act was passed by the Legislature in March 2007. The legislation provided for a voluntary participation election of eligible emergency medical service officers and mandated that certain participation levels be reached by December 31, 2007, in order for the provisions of the Emergency Medical Services Retirement System to become effective. At the close of the election period, fifteen licensed EMS public employers, consisting of twelve eligible Public Employees Retirement System (PERS) political subdivisions and three eligible Non-PERS political subdivisions, passed corporate resolutions to become participating public employers of this retirement system. Statewide, over five hundred eligible Emergency Medical Services Officers elected to opt into this new retirement plan. The WV Emergency Medical Services Retirement System (EMSRS) became effective January 1, 2008.

The statute prohibited any payout of benefits from the EMSRS fund prior to January 1, 2011, with the exception of duty disability retirement. An EMSRS member is eligible for "normal" retirement when one of the following occurs:

- Attainment of age 50 and the completion of 20 years of contributory service; or
- Attainment of age 50 when age plus contributory service equals 70 while still in covered employment; or
- Attainment of age 60 and completion of 10 years contributory service while still in covered employment; or
- Attainment of age 62 and completion of 5 years of contributory service.

An EMSRS member is eligible for "early retirement" when they reach age 45 and have completed 20 years of service.

Final Average Salary (FAS) is the average of the highest annual compensation received by the member during covered employment for any 5 consecutive plan years (Jan. 1- Dec. 31) within the last 10 years of service. The accrued benefit on behalf of any member is calculated as follows:

Final Average Salary x Years of Credited Service x Benefit Percentage

Annual Retirement Benefit Formula

2.75% x FAS x Years of Service for years 1-20
 2.0% x FAS x Years of Service for years 21-25
 1.0% x FAS x Years of Service for years 26-30

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Emergency Medical Services Retirement System (EMSRS) (Continued)

In accordance with provisions in statute, upon reaching a 75% funded level as of an actuarial valuation date, the Board shall increase the annual retirement benefit multiplier from 2.6% of final average salary to 2.75% of final average salary for years one through twenty of service credited.

Chapter 16, Article 5V of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

Contributions - Currently, the EMSRS employee contribution rate is 8.5% of gross monthly salary and the employer contribution rate is 10.5% of gross monthly salary.

Municipal Police Officers and Firefighters Retirement System (MPFRS)

Plan Description - The MPFRS Act was passed by the Legislature in November 2009, and become effective January 1, 2010. The legislation provided for any municipality or municipal subdivision employing municipal police officers or firefighters to elect to become a participating employer. MPFRS is a multiple employer defined benefit retirement system. The MPFRS had 12 participating members as of June 30, 2012. If there are fewer than 100 members on January 1, 2014, all members will be merged into the Emergency Medical Services Retirement System. All police officers and firefighters first employed in covered employment after the date the municipality or municipal subdivision elected to join MPFRS are required to be members of MPFRS.

A MPFRS member is eligible for "normal" retirement when one of the following occurs:

- Attainment of age 50 and the completion of 20 years of contributory service; or
- Attainment of age 50 when age plus contributory service equals 70 while still in covered employment; or
- Attainment of age 60 and completion of 10 years contributory service while still in covered employment; or
- Attainment of age 62 and completion of 5 years of contributory service.

Final Average Salary (FAS) is the average of the highest annual compensation received by the member during covered employment for any 5 consecutive plan years (Jan. 1 - Dec. 31) within the last 10 years of service. The accrued benefit on behalf of any member is calculated as follows, not to exceed 67%:

Final Average Salary x Years of Credited Service x Benefit Percentage

Annual Retirement Benefit Formula

2.6% x FAS x Years of Credited Service for years 1-20

2.0% x FAS x Years of Credited Service for years 21-25

1.0% x FAS x Years if Credited Service for years 26-30

Chapter 8, Article 22A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Municipal Police Officers and Firefighters Retirement System (MPFRS) (Continued)

Contributions - Currently, the MPFRS employee contribution rate is 8.5% of gross monthly salary and the employer contribution rate is 8.5% of gross monthly salary. As provided in statute, the Board may recommend the employee contribution rate be increased to 10.5% if the MPFRS plan does not reach a 70% funded level by July 1, 2014.

Plan Membership

Membership in the above plans consisted of the following as of the plan valuation dates, July 1, 2011 and 2010:

As of July 1, 2011:	<u>PERS</u>	<u>TRS</u>	<u>PSDDRS</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>	<u>EMSRS</u>	<u>MPFRS</u>
Retirees and beneficiaries currently receiving benefits	22,793	31,043	689	17	272	56	20	-
Terminated members entitled to benefits but not yet receiving them	3,859	1,579	4	7	70	-	22	-
Terminated nonvested members	12,172	1,669	2	109	143	2	81	3
Active members:								
Vested	23,420	25,534	133	227	613	23	259	-
Nonvested	<u>12,834</u>	<u>10,321</u>	<u>-</u>	<u>296</u>	<u>341</u>	<u>47</u>	<u>276</u>	<u>9</u>
Total	<u>75,078</u>	<u>70,146</u>	<u>828</u>	<u>656</u>	<u>1,439</u>	<u>128</u>	<u>658</u>	<u>12</u>
As of July 1, 2010:	<u>PERS</u>	<u>TRS</u>	<u>PSDDRS</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>	<u>EMSRS</u>	<u>MPFRS</u>
Retirees and beneficiaries currently receiving benefits	22,040	30,127	684	17	260	56	-	-
Terminated members entitled to benefits but not yet receiving them	3,883	1,621	3	8	65	-	27	-
Terminated nonvested members	11,481	1,420	2	101	127	2	75	-
Active members:								
Vested	23,436	25,491	147	225	586	24	251	-
Nonvested	<u>12,541</u>	<u>10,179</u>	<u>-</u>	<u>273</u>	<u>372</u>	<u>47</u>	<u>274</u>	<u>6</u>
Total	<u>73,381</u>	<u>68,838</u>	<u>836</u>	<u>624</u>	<u>1,410</u>	<u>129</u>	<u>627</u>	<u>6</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Plan Funded Status and Funding Progress - Defined Benefit Pension Plans

Plan Funded Status - The funded status of each plan as of July 1, 2011 (unless otherwise noted), the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS	\$ 4,322,668	\$ 5,515,252	\$ 1,192,584	78.4%	\$ 1,327,717	89.8%
TRS	5,074,665	9,445,148	4,370,483	53.7%	1,505,749	290.3%
PSDDRS	481,994	606,245	124,251	79.5%	8,001	1,552.9%
SPRS	70,756	79,036	8,280	89.5%	24,725	33.5%
DSRS	113,574	149,462	35,888	76.0%	42,366	84.7%
JRS	124,583	95,591	(28,992)	130.3%	8,860	0.0%
EMS	32,366	39,225	6,859	82.5%	22,488	30.5%
MPFRS	65	23	(42)	282.6%	343	(12.2)%

Plan Funding Progress - The schedules of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Significant exemptions used in determining funding progress are as follows:

	PERS	TRS	PSDDRS
Valuation date	July 1, 2011	July 1, 2011	July 1, 2011
Actuarial cost method	Entry age normal	Entry age	Entry age
Asset valuation method	4 Year Smoothing	Fair value	Fair value
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	Through FY 2035	Through FY 2034	Through FY 2024
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases:			
PERS:			
State	4.25-6.0%	-	-
Nonstate	4.25-6.0%	-	-
TRS:			
Teachers	-	3.75-5.25%	-
Non Teachers	-	3.4-6.50%	-
PSDDRS:			
			6.5% for first 2 yrs of service
			6.0% for first 3 yrs of service
			5.5% for the next 5 yrs and
			4.75% thereafter
Inflation rate	3.0%	3.0%	3.0%

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**

	SPRS	DSRS	JRS
Valuation date	July 1, 2011	July 1, 2011	July 1, 2011
Actuarial cost method	Entry age normal	Entry age normal cost-aggregate level percent of payroll	Entry age
Actuarial valuation method	Fair value	Fair value	Fair value
Amortization method	Level percentage of payroll	Level percentage of open group payroll plus fee deposits	Level dollar
Amortization period	Through FY 2030	Through FY 2029	Not applicable
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	6.5% for first 2 yrs of service, 6.0% for next 3 yrs of service,	6.5% for first 2 yrs of service, 6.0% for next 3 yrs of service,	4.5%
	5.5% for the next 5 yrs, and 4.75% thereafter	5.5% for the next 5 yrs, and 5.0% thereafter	Annual increase to benefits 4.5%
Inflation rate	3.0%	3.0%	3.0%
	EMSRS	MPFRS	
Valuation date	July 1, 2011	July 1, 2011	
Actuarial cost method	Entry age normal with aggregate normal cost level percentage of payroll	Entry age cost with aggregate normal cost level percent	
Actuarial valuation method	Fair value	Fair value	
Amortization method	Level dollar	Level dollar	
Amortization period	Through FY 2038	Through FY 2040	
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	
Projected salary increases	By age from 5.0% at age 30 Declining to 3.5% at age 65	By age from 5.0% at age 30 Declining to 3.5% at age 65	
Inflation rate	3.0%	3.0%	

Teachers' Defined Contribution Retirement System

Plan Description - TDCRS is a multiple employer defined contribution retirement system, which is a money purchase pension plan covering primarily full-time employees of the State's 55 county public school systems, the State Department of Education, and the Schools for the Deaf and Blind who were hired between July 1, 1991 and June 30, 2005. TDCRS members also include former TRS plan members, including higher education employees, who have elected to transfer into or participate in TDCRS. TDCRS benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. TDCRS closed participation to new members effective June 30, 2005.

During the 2008 First Special Session, the West Virginia Legislature passed House Bill 101 regarding retirement benefits for teachers and educational service personnel which became effective Sunday, March 16, 2008. The legislation provided an opportunity for members of the Teachers' Defined Contribution Retirement System (TDCRS) to elect to transfer to the West Virginia Teachers' Retirement System (TRS). The transfer occurred on July 1, 2008 and a total of 15,152 TDCRS members transferred to TRS.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (Continued)**Defined Benefit Plans (Continued)**Teachers' Defined Contribution Retirement System (Continued)

The TDCRS provides members with a choice of 16 separate investment options made up of fixed income, balanced, large cap, mid cap, small cap, and international mutual funds, a money market fund and a fixed annuity.

Contributions - State law requires employees to contribute 4.5% of their gross compensation and the employers to contribute 7.5% of covered members' gross compensation. Employer contributions are comprised from amounts allocated to the employers through the State's School Aid Formula, forfeitures allotted from the TDC Plan and county contributions. Employer contributions for each employee (and interest allocated to the employee's account) become partially vested after six years and fully vested after 12 complete years of service. If a terminated employee does not return to active participant status within five years, the nonvested employer contributions and earnings thereon are forfeited to reduce the employer's current period contribution requirement. Any such forfeitures arising from contributions, plus earnings thereon, will be used to reduce future employer contributions.

3 - INVESTMENTS

The Board has adopted investment guidelines that are consistent with those specified in the West Virginia Code. Those guidelines authorize the Board to invest with IMB in obligations of the United States and certain of its agencies, certificates of deposit, direct and general obligations of states, repurchase agreements relating to certain securities, equity securities, real estate, and guaranteed investment contracts. Plan assets of defined benefit plans are invested by the IMB. Investments are managed by a third party administrator as the trustee for the TDCRS.

The IMB invests plan assets in accordance with West Virginia Code and policies established by the IMB. Individual defined benefit plan assets are invested by the IMB in the various IMB pools. Following is a summary of investments held by IMB for each plan as of June 30, 2012 and 2011 (in thousands):

June 30, 2012	<u>PERS</u>	<u>TRS</u>	<u>PSDDRS</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>	<u>EMSRS</u>	<u>MPOF</u>
Large cap equity	\$ 795,984	\$ 908,381	\$ 86,640	\$ 14,200	\$ 21,171	\$ 23,121	\$ 6,359	\$ 32
Non-large cap equity	269,212	307,418	29,507	4,779	7,158	7,802	2,147	10
International qualified	343,311	393,701	37,412	5,717	9,036	9,901	2,593	14
International equity	742,277	851,090	82,434	13,451	19,898	21,657	6,056	27
Private equity	435,948	503,734	48,464	7,821	11,695	12,702	3,525	17
Real estate	273,496	312,255	29,722	4,829	7,273	7,928	2,177	11
Total return fixed income	612,542	632,244	68,306	11,174	16,678	17,947	5,113	25
Core fixed income	294,910	300,128	32,860	5,393	8,043	8,645	2,470	11
Hedge fund	443,916	509,625	48,974	7,950	11,851	12,917	3,579	16
TRS annuity	-	53,023	-	-	-	-	-	-
Short term fixed income	26,949	210,217	718	1,417	468	367	230	22
TIPS	113,597	129,741	12,349	2,004	3,010	3,278	904	4
Total investments	<u>\$4,352,142</u>	<u>\$5,111,557</u>	<u>\$ 477,386</u>	<u>\$ 78,735</u>	<u>\$ 116,281</u>	<u>\$ 126,265</u>	<u>\$ 35,153</u>	<u>\$ 189</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)

June 30, 2011	<u>PERS</u>	<u>TRS</u>	<u>PSDDRS</u>	<u>SPRS</u>	<u>DSRS</u>	<u>JRS</u>	<u>EMSRS</u>	<u>MPOF</u>
Large cap equity	\$ 810,662	\$ 902,180	\$ 88,512	\$ 13,145	\$ 20,972	\$ 23,447	\$ 6,037	\$ -
Non-large cap equity	286,555	317,860	31,093	4,525	7,329	8,158	2,173	-
International qualified	387,425	423,508	42,233	6,010	9,955	11,000	2,732	-
International equity	705,905	796,380	77,543	11,230	18,040	20,095	5,103	-
Private equity	442,041	495,625	47,325	6,340	10,808	12,061	2,938	-
Real estate	107,921	119,095	11,533	1,683	2,748	3,060	788	-
Total return fixed income	678,400	654,040	77,327	11,374	17,393	18,640	5,026	-
Core fixed income	311,640	303,827	36,707	5,384	8,203	8,765	2,384	-
Hedge fund	386,499	426,630	43,663	6,398	10,697	11,557	2,714	-
TRS annuity	-	103,845	-	-	-	-	-	-
Short term fixed income	18,733	217,903	1,309	1,094	599	1,417	449	61
TIPS	<u>223,244</u>	<u>249,320</u>	<u>24,760</u>	<u>3,573</u>	<u>5,744</u>	<u>6,387</u>	<u>1,619</u>	<u>-</u>
Total investments	<u>\$4,359,025</u>	<u>\$5,010,213</u>	<u>\$ 482,005</u>	<u>\$ 70,756</u>	<u>\$ 112,488</u>	<u>\$ 124,587</u>	<u>\$ 31,963</u>	<u>\$ 61</u>

Large Cap Equity

The Pool's objective is to exceed, net of external investment management fees, the S&P 500 Stock Index over three to five year periods. Assets are managed by Intech Investment Management, LLC, and State Street Global Advisors.

The Pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's collateral reinvestment fund. At June 30, 2012, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of the Pool and is not exposed to concentration of credit risk.

Non-Large Cap Equity

The Pool invests in the equities of small to mid-sized companies and its objective is to exceed, net of external investment management fees, the Russell 2500 Index over three to five year periods. Assets are managed by Aronson Johnson Ortiz, LP and Westfield Capital Management.

The Pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2012, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of the Pool and is not exposed to concentration of credit risk.

International Qualified

Funds are invested in Silchester International Investors' Value Equity Group Trust. The Pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East (EAFE) index by 200 basis points on an annualized basis over three to five year periods, net of external investment management fees. Only "qualified participants" (as defined by the *Internal Revenue Code*) may invest in the Pool.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)International Qualified (Continued)

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2012, was \$801,731,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012 the IMB was in compliance with this limitation. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Nonqualified

Funds are invested in Silchester International Investors' Value Equity Trust. The Pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's EAFE index by 200 basis points on an annualized basis over three to five year periods, net of external investment management fees. The Pool exists for participants who are not "qualified" (as defined by the *Internal Revenue Code*).

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2012, was \$87,453,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012 the IMB was in compliance with this limitation. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

This Pool invests in the equities of international companies. Assets are managed by Axiom International Investors, LLC, Brandes Investment Partners, LLC, LSV Asset Management, and Pictet Asset Management Limited. The objective of the Pool is to exceed, net of external investment management fees, Morgan Stanley Capital International's All Country World Free Ex US index over three to five year periods.

The Pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2012, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of the Pool. The Pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012 the IMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2012 are as follows (in thousands):

Currency	Equity Securities	Cash	Total
Australian Dollar	\$ 63,284	\$ 143	\$ 63,427
Brazil Real	77,642	3,441	81,083
British Pound	217,785	404	218,189
Canadian Dollar	83,701	75	83,776
Czech Crown	6,230	-	6,230

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)International Equity (Continued)

<u>Currency</u>	<u>Equity Securities</u>	<u>Cash</u>	<u>Total</u>
Danish Krone	6,858	24	6,882
Emirati Dirham	8,048	-	8,048
Euro Currency Unit	289,347	1,256	290,603
Hong Kong Dollar	152,281	697	152,978
Hungarian Forint	7,620	1	7,621
Indian Rupee	35,768	380	36,148
Indonesian Rupiah	8,313	145	8,458
Israeli Shekel	13,413	103	13,516
Japanese Yen	215,250	9,319	224,569
Malaysian Ringgit	5,067	126	5,193
Mexican Peso	22,072	24	22,096
New Taiwan Dollar	47,733	2,300	50,033
New Zealand Lira	7,513	58	7,571
Norwegian Krone	21,877	28	21,905
Pakistani Rupee	922	-	922
Philippine Peso	7,751	75	7,826
Polish Zloty	6,708	9	6,717
Singapore Dollar	20,786	46	20,832
South African Rand	51,153	57	51,210
South Korean Won	128,548	2,374	130,922
Swedish Krona	16,126	71	16,197
Swiss Franc	62,607	6	62,613
Thailand Baht	17,882	-	17,882
Turkish Lira	42,295	48	42,343
	<u>\$ 1,644,580</u>	<u>\$ 21,210</u>	<u>\$ 1,665,790</u>

This table excludes cash and securities held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and securities is \$257,253 (in thousands) at June 30, 2012.

Short-Term Fixed Income

The main objective of the Pool is to maintain sufficient liquidity to fund withdrawals by the participant plans and to invest cash contributions until such time as the money can be transferred to other asset classes without sustaining capital losses. JP Morgan Investment Advisors, Inc. manages the Pool. The Pool's investment performance, net of external investment management fees, is expected to meet or exceed the Salomon ninety-day Treasury bill index plus fifteen basis points.

Credit risk

The IMB limits the exposure to credit risk in the Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the Pool must have at least 15 percent of its assets in United States Treasury issues.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Short-Term Fixed Income (Continued)

The following table provides information on the weighted average credit ratings of the Pool's investments as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Agency discount notes	Aaa	AA+	\$ 169,173	46.2%
Agency notes	Aaa	AA+	20,096	5.5
Commercial paper	P-1	A-1	18,279	5.0
U.S. Treasury bills	Aaa	AA+	71,808	19.6
U.S. Treasury notes	Aaa	AA+	<u>86,995</u>	<u>23.7</u>
Total rated investments			<u>\$ 366,351</u>	<u>100.0%</u>

This table includes securities received as collateral for repurchase agreements with a fair value of \$81,966 (in thousands) as compared to the amortized cost of the repurchase agreements of \$80,588 (in thousands).

Concentration of Credit Risk

West Virginia statutes prohibit the Pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, the Pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk

At June 30, 2012, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent and the collateral is held in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest rate risk

The weighted average maturity of the investments of the Pool is not to 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 Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (days)</u>
Agency discount notes	\$ 169,173	48
Agency notes	20,096	95
Commercial paper	18,279	8
Repurchase agreements	80,588	1
U.S. Treasury bills	71,808	29
U.S. Treasury notes	<u>5,029</u>	153
Total assets	<u>\$ 364,973</u>	36

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Short-Term Fixed Income (Continued)*Foreign currency risk*

The Pool has no securities that are subject to foreign currency risk.

Total Return Fixed Income

The main objective of this Pool is to earn superior returns with low volatility by actively investing in the extended fixed income markets. Dodge & Cox and Western Asset Management Company manage the Pool. The Pool's investment performance, net of external investment management fees, is expected to meet or exceed the Barclays Capital Universal index.

Credit risk

The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Agency collateralized mortgage obligations	Aaa	AA+	\$ 32,536	1.5%
Agency mortgage backed securities	Aaa	AA+	340,717	15.3
Corporate asset backed securities	Aa2	AA-	38,005	1.7
Corporate bonds and notes	Baa2	BBB	754,176	33.7
Corporate collateralized mortgage obligations	B	B	21,589	1.0
Corporate preferred securities	Ba2	BB	8,572	0.4
Foreign government bonds	Baa1	A-	6,293	0.3
Municipal bonds	A1	A	93,246	4.2
Regulated investment companies	Aaa	AAA	184,079	8.2
U.S. Treasury bonds and notes	Aaa	AA+	<u>309,610</u>	<u>13.9</u>
Total rated investments			<u>\$ 1,788,823</u>	<u>80.2%</u>

Unrated securities include commingled investment pools valued at \$441,868 (in thousands) and option contracts purchased valued at \$728 (in thousands). These unrated securities represent 19.8 percent of the fair value of the Pool's investments.

Concentration of credit risk

West Virginia statutes prohibit the Pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, the Pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Total Return Fixed Income (Continued)*Custodial credit risk*

At June 30, 2012, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Investments in commingled funds are held in an account in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest rate risk

The IMB monitors interest rate risk of the Pool by evaluating 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 Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Agency collateralized mortgage obligations	\$ 32,536	3.4
Agency mortgage backed securities	340,717	8.5
Commingled investment pools	441,868	2.7
Corporate asset backed securities	38,005	8.0
Corporate bonds and notes	754,176	6.4
Corporate collateralized mortgage obligations	21,589	4.8
Foreign government bonds	6,293	7.5
Municipal bonds	93,246	13.1
Regulated investment companies	184,079	0.0
U.S. Treasury bonds and notes	<u>309,610</u>	6.7
Total rated investments	<u>\$ 2,222,119</u>	5.8

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. 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, 2012, the Pool held \$432,847,000 of these securities. This represents approximately 20 percent of the value of the Pool's securities.

Foreign currency risk

Of the notes, bonds, asset backed securities, mortgage backed securities, collateralized mortgage obligations and money market fund held by the Pool, only the foreign government bond denominated in Mexican Peso is exposed to foreign currency risk. The market value of this bond is \$6,293,000, which represents less than 1 percent of the value of the Pool's securities. The Pool also has foreign exchange forward contracts. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Total Return Fixed Income (Continued)*Foreign currency risk (Continued)*

\$138,355,000, or 31 percent, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 6 percent of the value of the Pool's securities. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012 the IMB was in compliance with this limitation.

Core Fixed Income

The main objective of this Pool is to generate investment income, provide stability and diversification, but not at the expense of total return. JP Morgan Investment Advisors, Inc. manages this Pool. This Pool's investment performance, net of external investment management fees, is expected to meet or exceed the Barclays Capital U.S. Aggregate index.

Credit Risk

The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Agency bonds and notes	Aaa	AA+	\$ 16,801	1.4%
Agency collateralized mortgage obligations	Aaa	AA+	268,484	22.3
Agency mortgage backed securities	Aaa	AA+	173,034	14.4
Corporate asset backed securities	Aa2	AA+	30,397	2.5
Corporate bonds and notes	A3	A	271,566	22.7
Corporate collateralized mortgage obligations	A1	AA+	145,724	12.1
Municipal bonds	Aa3	AA-	4,781	0.4
Regulated investment companies	Aaa	AAA	11,728	1.0
U.S. Treasury bonds and notes	Aaa	AA+	<u>278,786</u>	<u>23.2</u>
Total rated investments			<u>\$ 1,201,301</u>	<u>100.0%</u>

Concentration of Credit Risk

West Virginia statutes prohibit the Pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, the Pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Core Fixed Income (Continued)*Custodial Credit Risk*

At June 30, 2012, the Pool held no securities that were subject to custodial credit risk. All securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The IMB monitors interest rate risk of the Pool by evaluating 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 Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Agency bonds and notes	\$ 16,801	5.0
Agency collateralized mortgage obligations	268,484	3.6
Agency mortgage backed securities	173,034	6.9
Corporate asset backed securities	30,397	1.9
Corporate bonds and notes	271,566	5.7
Corporate collateralized mortgage obligations	145,724	3.1
Municipal bonds	4,781	12.6
Regulated investment companies	11,728	0.0
U.S. Treasury bonds and notes	<u>278,786</u>	6.8
Total rated investments	<u>\$ 1,201,301</u>	5.0

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. 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, 2012, the Pool held \$617,639 (in thousands) of these securities. This represents approximately 51 percent of the value of the Pool's securities.

Foreign Currency Risk

None of the securities held by the Pool are exposed to foreign currency risk.

TIPS Pool

The Pool invests in Treasury Inflation-Protected Securities (TIPS) and its objective is to match the performance of the Barclay's Capital U.S. TIPS Bond Index on an annualized basis over rolling three year to five year periods, gross of fees. Assets are managed by State Street Global Advisors.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)TIPS Pool (Continued)*Credit Risk*

The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
U.S. Treasury issues	Aaa	AA+	\$ 738,767	99.9%
Money market funds	Aaa	AAA	<u>406</u>	<u>0.1</u>
Total rated investments			<u>\$ 739,173</u>	<u>100.0%</u>

Concentration of Credit Risk

West Virginia statutes prohibit the Pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, the Pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk

At June 30, 2012, the Pool held no securities that were subject to custodial credit risk. All securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The IMB monitors interest rate risk of the Pool by evaluating 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 Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
U.S. Treasury issues	\$ 738,767	8.1
Money market funds	<u>406</u>	0.0
Total assets	<u>\$ 739,173</u>	8.1

Foreign Currency Risk

None of the securities held by the Pool are exposed to foreign currency risk.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)TRS Annuity Pool

The Pool holds an investment contract strictly for the benefit of the Teachers' Retirement System (TRS). The IMB assumed responsibility for this investment as part of the restructuring of the Teachers' Defined Contribution (TDC) plan, a separate retirement plan outside of the IMB, whereby certain TDC participants elected to transfer the ownership of their individual TDC retirement accounts to the TRS in exchange for current participation in the TRS defined benefit plan. The contract, issued by the Variable Annuity Life Insurance Company (VALIC), could not be liquidated as part of the restructuring, and was transferred in kind to the IMB on December 10, 2008. The final amount transferred on the contract was \$248,293,000. Effective April 23, 2009, the IMB elected to liquidate this contract and will receive five equal annual payments of \$55,058,000. Payments were received on May 4, 2009, 2010, 2011, and 2012. Final payment will be received on May 4, 2013. The contract and the payments include a guaranteed annual interest yield of 4.5%. VALIC is a wholly-owned subsidiary of American International Group, Inc. (AIG), but is not in bankruptcy.

Credit Risk

The contract issued by the VALIC is not rated by any of the nationally recognized statistical rating agencies. VALIC has received "A" ratings from Moody's, Fitch, and Standard & Poor's.

Concentration of Credit Risk

The contract issued by the VALIC is the only security held by the Pool. Consequently, the Pool is subject to concentration of credit risk.

Custodial Credit Risk

The Pool is not subject to custodial credit risk.

Interest Rate Risk

The investment contract has a guaranteed annual interest yield of 4.5%. The IMB has elected to withdraw funds in equal installments over five years. Under the terms of the election agreement the interest rate became fixed. The Pool is subject to the risk that it could potentially earn a lower than market interest rate in the event market rates increase above the 4.5% contractual rate.

Foreign Currency Risk

The Pool is not subject to foreign currency risk.

Private Equity

The Pool was established to hold the IMB's investments in various types of private equity funds. Franklin Park Associates, LLC has been retained by the IMB to provide consulting services for this asset class.

The Pool holds limited partnerships, shares of an institutional commingled fund and a money market fund with the highest credit rating. The institutional commingled fund is not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The securities of the Pool are not exposed to credit risk, interest rate risk, or custodial

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Private Equity (Continued)

credit risk. There is an indirect exposure to foreign currency risk through certain of the partnerships and the commingled fund. At June 30, 2012 these investments had holdings in foreign currencies of approximately \$314,621,000 or approximately 31 percent of the total value of the Pool's investments. At June 30, 2012, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of the Pool and is not exposed to concentration of credit risk.

Real Estate

The Pool holds the IMB's investments in real estate funds, real estate limited partnerships and real estate investment trusts (REITs). Courtland Partners, Ltd. has been retained by the IMB to provide consulting services for the real estate funds and limited partnerships. The REITs are managed by European Investors, Inc., CBRE Clarion Securities, LLC., and Security Capital Research & Management Inc.

Credit Risk

The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Corporate bonds and notes	Baa	BBB-	\$ 114,420	18.0%
Regulated investment companies	Aaa	AAA	<u>18,677</u>	<u>3.0</u>
Total rated investments			<u>\$ 133,097</u>	<u>21.0%</u>

Unrated securities include equity securities valued at \$190,797 (in thousands) and investments in other funds valued at \$313,063 (in thousands). These unrated securities represent 79.0 percent of the fair value of the pool's investments.

Concentration of Credit Risk

West Virginia statutes prohibit the Pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, the Pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk

At June 30, 2012, the Pool held no securities that were subject to custodial credit risk. All securities are held by the IMB's custodian in the name of the IMB.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Real Estate (Continued)*Interest Rate Risk*

The IMB monitors interest rate risk of the Pool by evaluating 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 Pool as of June 30, 2012 (in thousands):

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Corporate bonds and notes	\$ 114,420	6.0
Regulated investment companies	<u>18,677</u>	0.0
Total assets	<u>\$ 133,097</u>	5.2

Foreign Currency Risk

The Pool has real estate investment trusts, shares of an institutional commingled fund, and cash that are denominated in foreign currencies and are exposed to foreign currency risks. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012 the IMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2012 are as follows (in thousands):

<u>Currency</u>	<u>Securities</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$ 3,401	\$ -	\$ 3,401
Brazil Real	55	-	55
British Pound	11,622	-	11,622
Canadian Dollar	2,914	-	2,914
Euro Currency Unit	4,516	4	4,520
Hong Kong Dollar	6,843	11	6,854
Japanese Yen	5,662	-	5,662
Polish Zloty	845	-	845
Singapore Dollar	2,152	-	2,152
South Korean Won	549	-	549
Swedish Krona	415	-	415
Thailand Baht	<u>476</u>	<u>-</u>	<u>476</u>
Total	<u>\$ 39,450</u>	<u>\$ 15</u>	<u>\$ 39,465</u>

This table excludes cash and securities held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and securities is \$597,475 (in thousands) at June 30, 2012.

Hedge Fund

The Pool was established to hold the IMB's investments in hedge funds. Albourne America, LLC has been retained by the IMB to provide consulting services for this investment strategy.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Hedge Fund (Continued)

The Pool holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The Pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. The Pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. At June 30, 2012, approximately \$428,621,000 or 41 percent, of the market value of the funds were held in foreign currencies.

IMB Commitments

The IMB, with the assistance of its consultant, began implementing its plan to invest in real estate in February 2008. The IMB committed \$595,000,000 to eighteen real estate investment funds/partnerships. The IMB had funded \$287,918,000 of these commitments at June 30, 2012, leaving unfunded commitments of \$307,082,000.

The IMB, with the assistance of its consultant, began implementing its plan to invest in private equity partnerships in February 2008. As of June 30, 2012, the IMB had made commitments to twenty-six private equity general partnerships totaling \$967,000,000. The IMB had funded \$427,075,000 of these commitments at June 30, 2012, leaving unfunded commitments of \$539,925,000.

Investments and Deposits - TDCRS*Credit Risk*

The TDCRS' investments are not rated as to credit risk.

Concentration of Credit Risk

As of June 30, 2012 and 2011, the TDCRS has investment balances with the following issuers which were greater than 5% of the total investment balance of the TDCRS (in thousands):

<u>Mutual Funds:</u>	<u>2012</u>	<u>2011</u>
PIMCO Total Return Fund	\$ 19,773	\$ 19,772
Valic Fixed Annuity Option	94,387	86,269
Orchard Secure Foundation Balanced	26,985	28,232
John Hancock Large Cap Equity	43,062	43,611
Putnam Equity Income	23,192	22,123
Vanguard Large Cap Index	23,304	21,494
Other (less than 5% individually)	<u>79,485</u>	<u>78,079</u>
	<u>\$ 310,188</u>	<u>\$ 299,580</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)Investments and Deposits - TDCRS (Continued)*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the TDCRS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012, the TDCRS held no securities that were subject to custodial credit risk.

Concentration of Credit Risk - Cash Deposits

At June 30, 2012 TDCRS had \$7,592,079 on deposit with the West Virginia State Treasurer's Office and \$193,720 in depository accounts with financial institutions. The deposits with financial institutions, which had a bank balance of \$193,720, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in TDCRS' name by its agent.

Interest Rate Risk

As of June 30, 2012, the TDCRS had the following investments and maturities (in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-5	6-10
Mutual Funds	\$ 310,188	\$ 310,188	\$ -	\$ -

Foreign Currency Risk

There are no securities held by TDCRS that are subject to foreign currency risk.

4 - DUE FROM STATE OF WEST VIRGINIA

The State of West Virginia reached a settlement with the United States Department of Health & Human Services in January 2011, requiring annual additional contributions of \$20 million per year for nine years from the State of West Virginia general fund to PERS. Contributions of \$5,000,000 are due quarterly on the 15th day after each quarter end, beginning on October 15, 2011. The remaining balance of the amount due from the state was \$165,000,000 and \$180,000,000 at June 30, 2012 and 2011, respectively.

5 - CAPITAL ASSETS

A summary of capital assets at June 30, 2012 and 2011, follows (in thousands):

2012	Beginning Balance	Increases	Decreases	Ending Balance
Software	\$ 821	\$ 313	\$ -	\$ 1,134
Accumulated depreciation	(98)	(92)	-	(190)
Capital assets, net	\$ 723	\$ 221	\$ -	\$ 944

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

5 - CAPITAL ASSETS (Continued)

2011	Beginning Balance	Increases	Decreases	Ending Balance
Software	\$ 530	\$ 291	\$ -	\$ 821
Accumulated depreciation	(35)	(63)	-	(98)
Capital assets, net	<u>\$ 495</u>	<u>\$ 228</u>	<u>\$ -</u>	<u>\$ 723</u>

6 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONPlan Description

The Board participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employees. The provisions of the Code of West Virginia, 1931, as amended (the Code) assigned the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publically available financial report that includes financial statements and required supplemental information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street S.E., Suite 2, Charleston, West Virginia, 25303-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost per year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The Board's contributions to the OPEB Plan were \$150,795, \$132,482, and \$139,185, and the billed ARC was \$756,657, \$739,909, and \$821,226, which represent 19.9%, 17.9%, and 16.9% of the ARC, respectively, for the years ending June 30, 2012, 2011, and 2010. This resulted in a net ARC liability of \$2,060,051 and \$1,454,189, which is included in the Board's liabilities as of June 30, 2012 and 2011, respectively.

7 - EMPLOYEE BENEFIT PLANS

The Board's employees are eligible to participate in PERS. The key provisions of the PERS plan are described in Note 2. Per the plan provisions, Board and employee contributions for the three years ended June 30, 2012, 2011, and 2010, are as follows, which equal their required contributions to the plan (in thousands):

	2012	2011	2010
Board contributions	\$ 425	\$ 347	\$ 313
Employee contributions	<u>132</u>	<u>125</u>	<u>128</u>
Total contributions	<u>\$ 557</u>	<u>\$ 472</u>	<u>\$ 441</u>

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

8 - CONTINGENCIES

The Board is engaged in various legal actions that it considers to be in the ordinary course of business. Some of these cases involve potentially significant amounts for which legal counsel is unable to render an opinion on the outcome. Further, the financial impact of some cases is dependent upon judicial rulings in favor of petitioners and would have to be actuarially determined, inasmuch as the relief sought is an increase in the petitioners' annuity benefit. Accordingly, the financial statement impact of such cases cannot be determined at the present time. As legal actions are resolved, the Board recognizes the liability in its financial statements in the period the amount can be estimated.

9 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to, and illnesses of employees; medical liabilities; and natural disasters.

Health insurance coverage for the Board's employees is obtained through its participation in the West Virginia Public Employees Insurance Agency (PEIA). PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State of West Virginia and various related State and non-State agencies. Additionally, the Board has obtained coverage for job-related injuries through the purchase of a policy through a commercial carrier. In exchange for the payment of premiums to PEIA and a commercial carrier, the Board has transferred its risks related to health coverage for employees and job-related injuries of employees. Furthermore, the Board is a participant in the self-insured public entity risk pool administered by the Board of Risk and Insurance Management. Coverage is in the amount of \$1,000,000 per occurrence for general liability and property damage.

There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

10 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the Board's June 30, 2013 financial statements. GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 67, *Financial Reporting for Pension Plans*, both of which will be effective for the Board's June 30, 2014 financial statements. Statement No. 68, *Accounting and Financial Reporting for Pensions*, was also issued by the GASB and will be effective for the Board's June 30, 2015 financial statements. The Board has not yet determined the effect these statements will have on their financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

SCHEDULE OF FUNDING PROGRESS
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS						
July 1, 2011	\$ 4,322,668	\$ 5,515,252	\$ 1,192,584	78.4 %	1,327,717	89.8 %
July 1, 2010	3,974,609	5,325,830	1,351,221	74.6	1,315,441	102.7
July 1, 2009	3,930,701	4,930,158	999,457	79.7	1,274,485	78.4
July 1, 2008	3,939,059	4,677,027	737,968	84.2	1,219,388	60.5
July 1, 2007	4,293,296	4,426,051	132,755	97.0	1,191,130	11.1
July 1, 2006	3,700,186	4,264,700	564,514	86.6	1,159,715	48.7
July 1, 2005	3,404,651	4,074,385	669,734	83.6	1,162,098	57.6
July 1, 2004	3,095,660	3,870,201	774,541	80.0	1,134,111	68.3
July 1, 2003	2,669,941	3,691,001	991,060	73.1	1,109,272	89.3
July 1, 2002	2,588,777	3,432,467	843,690	75.4	1,040,269	81.1
July 1, 2001	2,681,395	3,178,037	496,642	84.4	972,711	51.1
TRS						
July 1, 2011	\$ 5,074,665	\$ 9,445,148	\$ 4,370,483	53.7 %	\$ 1,505,749	290.3 %
July 1, 2010	4,143,540	8,904,312	4,760,772	46.5	1,500,761	317.2
July 1, 2009	3,554,771	8,607,869	5,053,098	41.3	1,499,232	337.0
July 1, 2008	4,133,883	8,268,578	4,134,695	50.0	1,409,437	293.4
July 1, 2007	3,665,993	7,142,711	3,476,718	51.3	828,939	419.4
July 1, 2006	2,174,464	6,877,872	4,703,408	31.6	759,206	619.5
July 1, 2005	1,627,355	6,617,708	4,990,353	24.6	735,614	678.4
July 1, 2004	1,427,475	6,440,738	5,013,263	22.2	784,415	639.1
July 1, 2003	1,191,238	6,243,834	5,052,596	19.1	832,919	606.6
July 1, 2002	1,098,441	5,709,001	4,610,560	19.2	841,627	547.8
July 1, 2001	1,090,663	5,188,826	4,098,163	21.0	867,018	472.7
PSDDRS						
July 1, 2011	\$ 481,994	\$ 606,245	\$ 124,251	79.5 %	\$ 8,001	1552.9 %
July 1, 2010	404,444	590,729	186,285	68.5	8,960	2079.1
July 1, 2009	362,927	573,579	210,652	63.3	10,215	2062.2
July 1, 2008	459,182	547,623	88,441	83.9	10,400	850.4
July 1, 2007	513,009	527,393	14,384	97.3	10,997	130.8
July 1, 2006	452,794	506,828	54,034	89.3	11,128	485.6
July 1, 2005	361,390	485,429	124,039	74.4	11,252	1102.4
July 1, 2004	118,080	462,119	344,039	25.6	12,273	2803.2
July 1, 2003	99,409	447,869	348,460	22.2	13,496	2581.9
July 1, 2002	91,095	416,938	325,843	21.9	14,314	2276.4
July 1, 2001	89,229	388,909	299,680	22.9	15,611	1919.7
SPRS						
July 1, 2011	\$ 70,756	\$ 79,036	\$ 8,280	89.5 %	\$ 24,725	33.5 %
July 1, 2010	52,735	69,171	16,436	76.2	23,635	69.5
July 1, 2009	40,321	61,628	21,307	65.4	22,382	95.2
July 1, 2008	41,564	51,388	9,824	80.9	20,285	48.4
July 1, 2007	40,350	40,786	436	98.9	18,850	2.3
July 1, 2006	30,747	33,552	2,805	91.6	15,870	17.7
July 1, 2005	25,297	26,050	753	97.1	14,311	5.3
July 1, 2004	19,882	22,102	2,220	90.0	13,233	16.8

(Continued)

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

SCHEDULE OF FUNDING PROGRESS
(In Thousands)
(Continued)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SPRS (Continued)						
July 1, 2003	14,741	16,892	2,151	87.3	11,449	18.8
July 1, 2002	11,644	13,708	2,064	84.9	10,134	20.4
July 1, 2001	9,825	10,819	994	90.8	10,175	9.8
DSRS						
July 1, 2011	\$ 113,574	\$ 149,462	\$ 35,888	76.0 %	\$ 42,366	84.7 %
July 1, 2010	92,692	139,638	46,946	66.4	41,109	114.2
July 1, 2009	78,220	129,204	50,984	60.5	39,067	130.5
July 1, 2008	89,852	119,738	29,885	75.0	37,366	80.0
July 1, 2007	93,983	109,726	15,743	85.7	34,605	45.5
July 1, 2006	77,899	103,748	25,849	75.1	31,967	80.9
July 1, 2005	68,914	98,081	29,167	70.3	29,837	97.8
July 1, 2004	59,715	87,759	28,044	68.0	28,326	99.0
July 1, 2003	49,364	78,871	29,507	62.6	26,094	113.1
July 1, 2002	44,371	72,702	28,331	61.0	24,292	116.6
July 1, 2001	42,919	64,869	21,950	66.2	22,590	97.2
JRS						
July 1, 2011	\$ 124,583	\$ 95,591	\$ (28,992)	130.3 %	\$ 8,860	0.0 %
July 1, 2010	102,814	96,008	(6,806)	107.1	8,256	0.0
July 1, 2009	88,310	93,185	4,875	94.8	8,140	59.9
July 1, 2008	100,186	97,965	(2,221)	102.3	8,261	0.0
July 1, 2007	104,127	96,018	(8,109)	108.4	8,261	0.0
July 1, 2006	85,932	91,820	5,888	93.6	8,029	73.3
July 1, 2005	74,757	90,528	15,771	82.6	8,145	193.6
July 1, 2004	63,559	85,778	22,219	74.1	6,325	351.3
July 1, 2003	52,779	96,709	43,930	54.6	6,325	694.5
July 1, 2002	47,620	92,215	44,595	51.6	6,325	705.1
July 1, 2001	46,635	84,791	38,156	55.0	6,325	603.3
EMSRS						
July 1, 2011	\$ 32,366	\$ 39,225	\$ 6,859	82.5 %	\$ 22,488	30.5 %
July 1, 2010	23,662	31,503	7,841	75.1	21,362	36.7
July 1, 2009	17,173	26,969	9,796	63.7	20,338	48.2
July 1, 2008	15,675	21,207	5,532	73.9	17,525	31.6
January 1, 2008	14,323	19,492	5,169	73.5	17,181	30.1
MPFRS						
July 1, 2011	\$ 65	\$ 23	\$ (42)	282.6 %	\$ 343	-12.2 %
July 1, 2010	3	4	1	79.7	208	0.3

Note: The June 30, 2003 TRS assets were changed to reflect the final audited financial statements which were unavailable at the issuance of the July 1, 2003 valuation report. EMSRS data is from the Initial Valuation report for the Plan's effective date of January 1, 2008.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND
OTHER CONTRIBUTING ENTITIES

(In Thousands)

Year Ended June 30	(1) Budgeted Recommended Contribution	(2) Restated Recommended Contribution	Percent of Budget Contributed	Percent of Restated Contributed
PERS				
2012	181,481	181,481	105.25 %	105.25 %
2011	192,577	192,577	83.34	83.34
2010	158,329	158,329	87.97	87.97
2009	128,036	128,036	99.98	99.98
2008	125,069	125,069	102.08	102.08
2007	121,770	121,770	101.91	101.17
2006	122,020	124,033	109.49	107.71
2005	119,082	119,164	99.71	99.64
2004	116,474	116,474	99.28	99.28
2003	98,826	117,030	104.47	88.22
TRS (3)				
2012	458,047	458,047	105.28 %	105.28 %
2011	471,171	471,171	106.35	106.35
2010	487,886	487,886	91.41	91.41
2009	404,457	404,457	94.29	94.29
2008	337,316	345,412	110.10	107.52
2007	348,688	327,068	425.99	454.15
2006	345,215	347,802	191.52	190.10
2005	342,800	334,533	102.98	105.52
2004	307,634	333,208	106.76	98.57
2003	271,808	290,428	105.38	98.63
PSDDRS (4)				
2012	22,051	22,051	105.65 %	105.65 %
2011	25,940	25,940	96.88	96.88
2010	12,416	12,416	98.01	98.01
2009	4,018	4,018	116.45	116.45
2008	5,693	5,693	94.01	94.01
2007	6,227	6,227	96.74	96.74
2006	10,567	10,567	724.46	724.46
2005	27,953	27,953	904.90	904.90
2004	24,701	24,358	97.10	98.47
2003	22,473	23,866	100.19	94.34
SPRS				
2012	4,327	4,327	105.02 %	105.02 %
2011	4,770	4,770	95.81	95.81
2010	3,537	3,537	84.96	84.96
2009	2,434	2,434	96.13	96.13
2008	2,262	2,262	102.49	102.49
2007	1,904	1,904	114.29	114.29
2006	1,719	1,717	105.93	106.06
2005	1,487	1,588	114.46	107.18
2004	1,357	1,343	109.95	122.70
2003	1,422	1,170	90.93	110.50

(Continued)

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND
OTHER CONTRIBUTING ENTITIES(In Thousands)
(Continued)

Year Ended June 30	(1) Budgeted Recommended Contribution	(2) Restated Recommended Contribution	Percent of Budget Contributed	Percent of Restated Contributed
DSRS (5)				
2012	\$ 6,058	\$ 6,058	89.65 %	89.65 %
2011	4,866	4,866	86.87	86.87
2010	4,652	4,652	87.12	87.12
2009	4,448	4,448	96.15	96.15
2008	4,134	4,134	102.49	102.49
2007	3,857	3,857	100.96	100.96
2006	3,608	3,608	104.30	104.30
2005	3,449	2,912	103.48	122.56
2004	2,979	3,241	108.46	99.69
2003	2,758	2,993	105.48	97.21
JRS				
2012	\$ 2,317	\$ 2,317	172.51 %	172.51 %
2011	2,385	2,385	165.77	165.77
2010	2,467	2,467	156.22	156.22
2009	2,537	2,537	237.84	237.84
2008	3,267	2,508	184.70	240.59
2007	4,204	3,088	143.53	195.40
2006	4,713	4,104	143.39	164.67
2005	6,758	4,398	100.00	153.66
2004	6,517	6,652	81.77	80.11
2003	5,413	6,418	101.60	85.70
EMSRS				
2012	\$ 2,361	\$ 2,361	96.23 %	96.23 %
2011	2,243	2,243	100.94	100.94
2010	2,135	2,135	102.58	102.58
2009	1,840	1,840	205.38	205.38
MPOF				
2012	\$ 29	\$ 29	248.28 %	248.28 %
2011	18	18	172.22	172.22

Notes:

- (1) Budgeted recommended contribution represents the original budgeted recommended contribution per the actuarial reports as presented to the Legislature.
- (2) Restated recommended contribution represents the updated recommended contribution based upon the availability of more recent information, including changes in market performance, payroll, and other factors.
- (3) Contributions for the Teachers Retirement System include employer contributions and interest from out-of-state services and surcharges on fire and casualty insurance policies which are specifically identified to fund the plan per West Virginia State Code Section 33-3-14d and 33-33-33.
- (4) Contributions for Plan A include employer contributions and other payments designated by WV State Code Section 15-2-26 - Payments to members for court attendance and mileage; rewards for apprehending wanted persons; fees for traffic accident reports and photographs; fees for criminal investigation reports and photographs; fees for criminal history record checks; and fees for criminal history record reviews and challenges or from any other sources designated by the superintendent.
- (5) Contributions include employer contributions and various other fees designated for the fund from charges and fees per WV State Code Section 7-14E-2 and 17A-3-17 - Charges for obtaining reports (i.e., accident reports); fees for performing certain services (adult private employment finger printing for federal firearm permits, motor vehicle number identification, adult identification card, and photo-identification card); fees for nongovernmental background investigation reports; and fees for renewal of a Class A or G vehicle registration.

See Accompanying Note to required Supplementary Information.

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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	PSDDRS	SPRS
Valuation date	July 1, 2011	July 1, 2011	July 1, 2011	July 1, 2011
Actuarial cost method	Entry age normal	Entry age	Entry age	Entry age normal
Asset valuation method	4 Year Smoothing	Fair value	Fair value	Fair value
Amortization method	Level dollar	Level dollar	Level dollar	Level percentage of payroll
Remaining amortization period	24 years	23 years	14 years	19 years
Actuarial assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	7.5%
Projected salary increases:				
PERS:				
State	4.25-6.0%	-	-	-
Nonstate	4.25-6.0%	-	-	-
TRS:				
Teachers	-	3.75-5.25%	-	-
Non Teachers	-	3.4-6.5%	-	-
Other Plans	-	-	6.5% per year for the first 2 years; 6.00% for the first 3 years of service; 5.50% for the next 5 years and 4.75% thereafter	6.5% per annum for the first 2 years of service; 6.0% for the next 3 years; 5.5% for the next 5 years and 4.75% thereafter
Inflation rate	3.0%	3.0%	3.0%	3.0%

DSRS	JRS	EMSRS	MPOF
July 1, 2011	July 1, 2011	July 1, 2011	July 1, 2011
Entry age normal cost - aggregate level percent of payroll	Entry age	Entry age normal with aggregate normal cost level percentage of payroll	Entry age cost with aggregate normal cost level percent
Fair value	Fair value	Fair value	Fair value
Level percentage of open group payroll plus fee deposits	Level dollar	Level dollar	Level dollar
18 years	N/A	27 years	29 years
7.5%	7.5%	7.5%	7.5%
-	-	-	-
-	-	-	-
-	-	-	-
6.5% for first 2 years; 6.0% next 3 years; 5.5% next 5 years and 5.0% thereafter	Projected salary increases: 4.5%; Annual increase to benefits 4.5%	By age from 5.0% at age 30 declining to 3.5% at age 65	By age from 5.0% at age 30 declining to 3.5% at age 65
3.0%	3.0%	3.0%	3.0%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the
West Virginia Consolidated Public
Retirement Board
Charleston, West Virginia

We have audited the accompanying financial statements of the pension funds and the internal service fund of the West Virginia Consolidated Public Retirement Board (the Board), as of and for the year ended June 30, 2012, which collectively comprise the Board's financial statements and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of the Board in a separate letter dated December 3, 2012.

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Members of the Board, and the Members of the West Virginia Legislature, and is not intended to be and should not be used by anyone other than these specified parties.



December 3, 2012

WEST VIRGINIA CONSOLIDATED PUBLIC RETIREMENT BOARD

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2012

2012-1 SUPERVISORY REVIEW AND APPROVAL OF JOURNAL ENTRIESCriteria

A key component of an effective system of internal control is the timely supervisory review and approval of journal entries.

Condition

Journal entries prepared by the Accounting Manager are not reviewed and approved.

Cause

Procedures for reviewing and approving journal entries prepared by the Accounting Manager are not in place.

Effect

Without supervisory review and approval, errors or irregularities in the financial statements resulting from incorrect journal entries may not be detected and corrected in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation

We recommend that the Chief Financial Officer review, each month, a listing of journal entries prepared by and posted by the Accounting Manager. The performance of this supervisory review and approval should be documented.

Views of Responsible Officer