

WEST VIRGINIA
BUREAU OF EMPLOYMENT PROGRAMS
(an Agency of the State of West Virginia)
Management's Discussion and Analysis (MD & A),
Basic Financial Statements,
Required Supplementary Information, and
Other Financial Information

June 30, 2005

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

The Commissioner
West Virginia Bureau of Employment Programs

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of the West Virginia Bureau of Employment Programs, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the West Virginia Bureau of Employment Programs' management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the West Virginia Bureau of Employment Programs are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund of the West Virginia Bureau of Employment Programs and of the State of West Virginia that is attributable to the transactions of the West Virginia Bureau of Employment Programs. They do not purport to, and do not, present fairly, the financial position of the State of West Virginia as of June 30, 2005 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the West Virginia Bureau of Employment Programs, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 6 through 14 and the budgetary comparison information on pages 36 through 37 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2005 on our consideration of the West Virginia Bureau of Employment Programs' 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Bureau of Employment Programs basic financial statements. The budget versus actual schedules on pages 39 through 43 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Suttle & Stalvaker, PLLC

September 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the West Virginia Bureau of Employment Programs, (the Bureau), an agency of the State of West Virginia, provides this *Management's Discussion and Analysis* of the Bureau's financial standing for the readers of the audited financial statements. As of June 30, 2005, the West Virginia Bureau of Employment Programs consisted of two primary operating divisions: the Employment Services Division (ES), and the Unemployment Compensation Division (UC).

This narrative overview and analysis of the financial activities for the Bureau is for the fiscal year ended on June 30, 2005. Please read it in conjunction with the Bureau's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Agency Wide Highlights:

The assets of the Bureau exceeded the liabilities for the fiscal year ended June 30, 2005 by \$244 million as compared to \$232 million for the fiscal year ended June 30, 2004.

Fund Level Highlights:

At the close of the fiscal year, the governmental activities of the Bureau reported a net assets deficit of \$7.2 million. This deficit is in part due to the Bureau's liability for compensated absences which were incorporated into the General Fund for the first time in fiscal year 2003 as part of the Bureau's implementation of the Governmental Accounting Standards Board (GASB) Statement No. 34. The federal grant programs that comprise the governmental activities of the Bureau provide funding for compensated absences as actual payments are made to employees; therefore, the Bureau anticipates that federal revenues will be available to pay these liabilities at the time they are due.

The business-type activities reported net assets of \$251 million for the Unemployment Compensation Trust Fund at June 30, 2005.

More detailed information regarding these funds and their activities is contained in Footnote 1 to the audited financial statements, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - *management's discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and *other financial information*. The basic financial statements include two kinds of statements that present different views of the State.

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Bureau's overall financial status.
- The remaining statements are *fund* financial statements that focus on *individual* parts of the Bureau's government, reporting the Bureau's operations in *more* detail than the government-wide statements.
 - The *government fund* statements tell how *general government* services like education were financed in the *short term* as well as what remains for future spending. For the Bureau, this consists primarily of federally funded workforce development programs.
 - *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses. For the Bureau, this consists of the Unemployment Compensation Trust Program.

- *Fiduciary fund* statements provide information about the financial relationships - like the retirement plan for the Bureau's employees - in which the State acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources in question belong. The Bureau has no fiduciary funds.
- The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the Bureau as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the reporting entity's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Bureau's *net assets* and how they have changed. Net assets - the difference between the Bureau's assets and liabilities - are one way to measure the Bureau's financial health or *position*.

- Over time, increases or decreases in the Bureau's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Bureau, one needs to consider additional nonfinancial factors such as changes in the Bureau's revenue sources and the condition of the Bureau's assets.

The government-wide financial statements of the State are divided into three categories:

- *Governmental activities* - These are the activities that are necessary for the government to function and meet its intended purpose. They are generally funded through a tax. For the Bureau, this consists primarily of federally funded workforce development programs.
- *Business-type activities* - The Bureau charges fees to customers to help it cover the costs of certain services it provides. For the Bureau, this consists of the Unemployment Compensation Trust Program.
- *Component Units* - The State includes other entities in its report such as West Virginia Housing Development, Parkways, Economic Development and Tourism Authority and Higher Education. These "component units" are important because the State is financially accountable for them. The Bureau has no component units. However, the Bureau is an agency of the State of West Virginia, and is considered part of the primary government in the State of West Virginia Comprehensive Annual Financial Report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Bureau's most significant *funds* - not the Bureau as a whole. Funds are accounting devices that the governmental agencies use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The State Legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Bureau has two kinds of funds:

- *Governmental funds* - Most of the Bureau's basic services are included in the governmental fund, which focuses on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Bureau's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements, or on the subsequent page, that explains the relationship (or differences) between them. For the Bureau, this fund consists primarily of federally funded workforce development programs.
- *Proprietary funds* - Services for which the Bureau charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. For the Bureau, this consists of the Unemployment Compensation Trust Fund.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

FINANCIAL ANALYSIS OF THE BUREAU AS A WHOLE

Net Assets

The Bureau's *combined* net assets (governmental and business-type) totaled \$243 million at the end of 2005, compared to \$232 million at the end of the previous year. (See table below).

Statements of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		% of Change Primary Government 2004-2005
	2004	2005	2004	2005	2004	2005	
Current and other assets	\$ 4,177	\$ 1,296	\$ 257,877	\$ 272,181	\$ 262,054	\$ 273,477	4.4%
Capital assets	880	667	-	-	880	667	-24.2%
Total assets	5,057	1,963	257,877	272,181	262,934	274,144	4.3%
Long-term debt outstanding	4,203	3,975	-	-	4,203	3,975	-5.4%
Other liabilities	4,102	5,277	22,940	21,200	27,042	26,477	-2.1%
Total liabilities	8,305	9,252	22,940	21,200	31,245	30,452	-2.5%
Net Assets:							
Invested in capital assets, net of debt	880	667	-	-	880	667	-24.2%
Restricted	5,414	6,441	234,937	250,981	240,351	257,422	7.1%
Unrestricted (deficit)	(9,542)	(14,397)	-	-	(9,542)	(14,397)	50.9%
Total net assets (deficit)	\$ (3,248)	\$ (7,289)	\$ 234,937	\$ 250,981	\$ 231,689	\$ 243,692	5.2%

The total net assets deficit of the Bureau's governmental activities increased 124% to \$7.2 million. This is primarily due to the Bureau providing goods and services that are not reimbursable by the federal grantors and the continued increase of restricted net assets. Some of those net assets either are restricted as to the purpose for which they can be used or are invested in capital assets. Consequently, unrestricted net assets show a \$14.4 million deficit at the end of the year. This deficit does not mean that the Bureau does not have resources available to pay its bills next year. The unrestricted net assets deficit increased 50.9% from last year.

The total net assets' of the Bureau's business-type activities increased 6.8% to \$251 million. The restricted net assets increased 6.8% primarily due to a sharp decrease in benefit expenditures, primarily Temporary Extended Unemployment Compensation expenditures.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

Changes in net assets

The Bureau's total revenues decreased by 11.2% to \$192 million. (See table below.) 16.5% of the Bureau's revenues come from federal grant programs aimed at workforce analysis and development. Other revenue comes from fees charged for services to employers by the Unemployment Compensation programs and investment earnings.

The total cost of all programs and services was \$180 million. The Bureau's expenses can be categorized into two categories: general governmental and direct benefits. General government expenses include all costs associated with operation of the Bureau and its programs, which includes administration and federal grant expenses incurred for employment training, statistics and support. Direct benefits consist of unemployment insurance benefits and comprised 79.8% of the total expenses of the Bureau for the fiscal year ended June 30, 2005.

	Change in Net Assets (Deficit) (Expressed in Thousands)						% of Change Primary Government 2004-2005
	Governmental Activities		Business-type Activities		Total Primary Government		
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	
Revenues							
Program revenues:							
Charges for services	\$ -	\$ -	\$ 145,263	\$ 149,314	\$ 145,263	\$ 149,386	2.8%
Federal grants	37,208	31,789	21,681	-	58,889	31,717	-46.1%
General revenues:							
Investment earnings	-	-	12,536	11,355	12,536	11,355	-9.4%
Total revenues	<u>37,208</u>	<u>31,789</u>	<u>179,480</u>	<u>160,669</u>	<u>216,688</u>	<u>192,458</u>	-11.2%
Expenses							
Program expenses:							
General government	41,456	36,490	-	-	41,456	36,490	-12.0%
Unemployment Compensation Trust	-	-	195,361	143,965	195,361	143,965	-26.3%
Total expenses	<u>41,456</u>	<u>36,490</u>	<u>195,361</u>	<u>143,965</u>	<u>236,817</u>	<u>180,455</u>	-23.8%
Increase (decrease) in net assets before transfers	(4,248)	(4,701)	(15,881)	16,704	(20,129)	12,003	159.6%
Transfers	1,669	660	(1,669)	(660)	-	-	0.0%
Increase (decrease) in net assets	(2,579)	(4,041)	(17,550)	16,044	(20,129)	12,003	159.6%
Beginning net assets (deficit)	(669)	(3,248)	252,487	234,937	251,818	231,689	-8.0%
Ending net assets (deficit)	<u>\$ (3,248)</u>	<u>\$ (7,289)</u>	<u>\$ 234,937</u>	<u>\$ 250,981</u>	<u>\$ 231,689</u>	<u>\$ 243,692</u>	5.2%

Governmental Activities

The revenues and expenses for the governmental activities operated by the Bureau experienced decreases during the fiscal year. This was primarily due to the Bureau receiving less federal funding than the previous fiscal year.

Another item that caused revenues and expenditures to decrease was the loss of grants such as the Health Care Tax Credit (HCTC) Bridge grant, the Trade Adjustment Assistance grant, and the Workforce Investment Act grant. These grants accounted for roughly a \$3 million dollar decrease in revenues and expenditures this past fiscal year.

Business-type Activities

For the Unemployment Compensation Trust Program, the Regular Unemployment Benefits expenditures decreased \$27.8 million as compared with last year. The Temporary Extended Unemployment Compensation (TEUC) expenditures have completely halted due to the expiration of this federally funded program. However, there were more refunds received during the fiscal year for TEUC. As for revenue, the Regular Unemployment and TEUC revenue categories naturally decreased as well. The decreases in revenues and in expenses can be attributed to a decline in the unemployment rate this past fiscal year. In July 2004, the rate was 5.4%, and when the current year ended the rate was 4.8%.

FINANCIAL ANALYSIS OF THE BUREAU'S FUNDS

Governmental Funds

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

The general fund is the chief operating fund of the Bureau's federal program activities and is the only governmental fund in the Bureau. At the end of the current fiscal year, the Bureau's governmental fund reported an ending fund balance of \$(3,981), a decrease of \$4,056 in comparison with the prior year. This decrease is due in part to federal funding cuts and in part to transferring \$1 million less in Reed Act funding into our general fund. (\$10,422) of this total amount constitutes unreserved fund balance (deficit). The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for goods and services under purchase orders issued by the Bureau or is reserved for Reed Act expenditures.

Proprietary Funds

National performance measurements showed West Virginia's Unemployment Compensation Program performed above the national average in sixty-two of the eighty measured areas. Also, our State was ranked in the top ten in twenty-one areas. These performance measurements cover timeliness, quality, and accuracy of each state's Benefit and Tax operations.

West Virginia's operational proper payment rate for unemployment benefits was 97.3% during Calendar Year 2005. Our proper payment rate was the ninth highest in the Nation and above the national average of 94.8%. The difference in our proper payment rate of 97.3% and the national average of 94.8% means that we saved more than \$3.7 million dollars more in employers' taxes than the average states due to more accurate payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original general fund budget of the Bureau was not amended during the year ended June 30, 2005. The most significant budget versus actual variances include:

- Revenues are substantially less than originally budgeted for a number of reasons including:
 - Some of the grants received by the Bureau are adjusted based upon workloads. As the economy worsens, workloads increase and additional funds are received; therefore, additional amounts are budgeted in case additional grant funds are received.
 - Additional funds are budgeted in case grants are received in the event of natural disasters.
 - The Bureau operates the Trade Readjustment Assistance Program (TRA) which provides retraining services to workers who find themselves unemployed due to competition from foreign trade. In addition to the annual grant received from the United States Department of Labor to fund this program, the Bureau may receive additional grants to serve special groups laid off by large employers. These National Emergency grants have amounted to as much as \$23 million in past years. The Bureau budgets additional funds each year in case these major layoffs occur and National Emergency grants are received.
- The computer equipment expenses were considerably less than budget due to the fact that federal budget reductions caused us to delay purchases.
- As disclosed above, some additional amounts, such as personal services, are budgeted in case grant funds are received for natural disasters and/or the economy worsens which results in an increase in the Bureau's workload.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Bureau had invested \$667 in capital assets that consist entirely of office furniture and equipment. (See table below). This amount represents a net decrease of \$213 or -24.2% from last year.

Capital Assets (Equipment) at Year-end
 (Expressed in Thousands)
 (Net of Depreciation)

	Governmental Activities		Total Percentage Change
	2004	2005	2004-2005
Governmental Activities	\$ 880	\$ 667	-24.2%

This year's major capital asset additions were in the purchase of additional office computer equipment to improve the Bureau's use of technology. The 24.2% decline in total assets from 2004 to 2005 is due to the normal disposal of equipment which is antiquated or no longer of use to the Bureau. More detailed information is presented in Note 1 to the financial statements.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands Unless Otherwise Noted)

Long-term Debt

At year end, the Bureau had \$3,975 in the long-term portion of compensated absences, an decrease of 5.4% as shown in the table below. More detailed information is presented in Notes 1 and 4 to the financial statements.

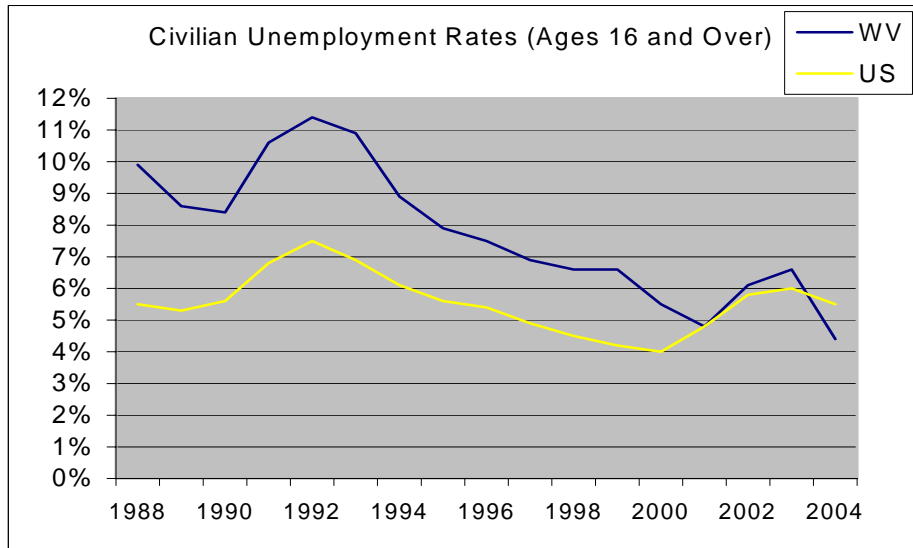
Outstanding Long-Term Debt at Year-end
(Expressed in Thousands)

	Governmental Activities		Total Percentage Change
	2004	2005	2004-2005
Compensated absences	\$ 4,203	\$ 3,975	-5.4%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

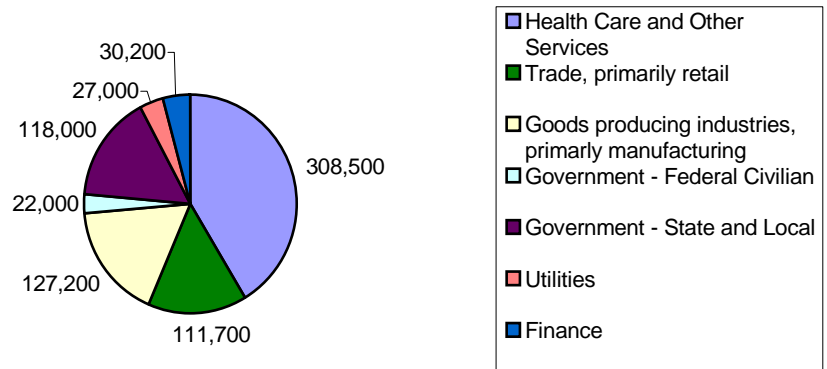
These indicators were taken into account when adopting the Bureau's budget for 2005.

- Nationally, unemployment now stands at 4.9% in August 2005 compared to 5.5% a year ago. The current unemployment rate for West Virginia is 5.5% for October 2005.



- The chart shown includes projected information for FY 2005. Since August 2004, the number of jobs in West Virginia has increased 5,400, 2,900 of which are in goods producing industries.

Employment by Major Industry



CONTACTING THE BUREAU'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Bureau's finances and to demonstrate the Bureau's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the West Virginia Bureau of Employment Programs, 112 California Avenue, Charleston, WV 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2005
(In Thousands)

Assets	Primary Government		
	Governmental Activities	Business-type Activities	Total
	General Fund	Unemployment Compensation Trust	
Current assets:			
Cash and cash equivalents	\$ 545	\$ 233,211	\$ 233,756
Receivables, net:			
Unemployment compensation premiums	-	37,365	37,365
Other	629	-	629
Due from other governments	-	1,231	1,231
Due from other funds - primary government	45	374	419
Inventories	77	-	77
Total current assets	1,296	272,181	273,477
Noncurrent assets:			
Capital assets, net	667	-	667
Total assets	1,963	272,181	274,144
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable	402	-	402
Accrued expenses and other liabilities	508	1,673	2,181
Due to other governments	3,020	3,905	6,925
Unemployment Compensation benefits payable	-	15,622	15,622
Compensated absences due within one year	1,347	-	1,347
Total current liabilities	5,277	21,200	26,477
Noncurrent liabilities:			
Compensated absences due in more than one year	3,975	-	3,975
Total noncurrent liabilities	3,975	-	3,975
Total liabilities	9,252	21,200	30,452
Net assets (deficit):			
Invested in capital assets, net of related debt	667	-	667
Restricted for:			
Encumbrances	367	-	367
Reed Act	6,074	-	6,074
Benefit payments	-	250,981	250,981
Unrestricted net assets (deficit)	(14,397)	-	(14,397)
Total net assets (deficit)	\$ (7,289)	\$ 250,981	\$ 243,692

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(In Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	
Primary government:						
Governmental activities:						
General government	\$ 36,070	\$ -	\$ 31,789	\$ (4,281)	\$ -	\$ (4,281)
Unallocated depreciation	420	-	-	(420)	-	(420)
Total governmental activities	<u>36,490</u>	<u>-</u>	<u>31,789</u>	<u>(4,701)</u>	<u>-</u>	<u>(4,701)</u>
Business-type activities:						
Unemployment Compensation						
Trust	143,965	149,314	-	-	5,349	5,349
Total business-type activities	<u>143,965</u>	<u>149,314</u>	<u>-</u>	<u>-</u>	<u>5,349</u>	<u>5,349</u>
Total primary government	<u>\$ 180,455</u>	<u>\$ 149,314</u>	<u>\$ 31,789</u>			

General Revenues:

Fund balance transfer	660	(660)	-
Investment earnings	-	11,355	11,355
Change in net assets	(4,041)	16,044	12,003
Net assets (deficit) - beginning	(3,248)	234,937	231,689
Net assets (deficit) - ending	<u>\$ (7,289)</u>	<u>\$ 250,981</u>	<u>\$ 243,692</u>

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(In Thousands)

	Governmental Activities General Fund
Assets:	
Cash and cash equivalents	\$ 545
Due from other funds - primary government	45
Accounts receivable - other	629
Inventories	77
Total assets	\$ 1,296
Liabilities and Fund Balance (Deficiency):	
Liabilities:	
Accounts payable	\$ 402
Accrued expenditures and other liabilities	4,875
Total liabilities	5,277
Fund balance (Deficiency):	
Reserved for encumbrances	367
Reserved for Reed Act	6,074
Unreserved deficiency	(10,422)
Total fund balance (deficiency)	(3,981)
Total liabilities and fund balance (deficiency)	\$ 1,296
Total fund balance (deficiency)	\$ (3,981)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	667
Long term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	(3,975)
Net assets (deficit) of governmental activities	\$ (7,289)

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIENCY)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(In Thousands)

	Governmental Activities General Fund
Revenues:	
Grants	\$ 31,789
Expenditures:	
Employment training, statistics, and support	36,505
	(4,716)
Excess (deficiency) of revenues over expenditures	
Other financing sources and uses, including transfers	
Transfer in from Unemployment Compensation Trust Fund	660
Net change in fund balance	(4,056)
Fund balance - beginning	75
Fund balance (deficiency) - ending	\$ (3,981)
Net change in fund balance (deficiency) - total governmental funds	\$ (4,056)
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation and disposals exceeded capital outlays.	(213)
Decreases (increases) in long-term liabilities do not affect current financial resources and therefore are not reported in the government funds.	228
Change in net assets (deficit) of governmental activities	\$ (4,041)

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2005
(In Thousands)

	Business-type Activities - Enterprise Fund
	Unemployment Compensation Trust
Assets:	
Current assets:	
Cash and cash equivalents	\$ 233,211
Receivables, net:	
Unemployment Compensation premiums	37,365
Due from other governments	1,231
Due from other funds - primary government	374
Total current assets	272,181
Total assets	\$ 272,181
Liabilities and Net Assets:	
Current liabilities:	
Accrued expenses and other liabilities	\$ 1,673
Due to other governments	3,905
Unemployment Compensation benefits payable	15,622
Total current liabilities	21,200
Total liabilities	21,200
Net Assets:	
Restricted for:	
Benefit payments	250,981
Total net assets	250,981
Total liabilities and net assets	\$ 272,181

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(In Thousands)

	Business-type Activities - <u>Enterprise Fund</u> <u>Unemployment</u> <u>Compensation</u> <u>Trust</u>
Operating revenues:	
Unemployment Compensation premiums	\$ 143,934
Other operating revenues, net	<u>5,380</u>
Total operating revenues	<u>149,314</u>
Operating expenses:	
Unemployment insurance benefits	<u>143,965</u>
Total operating expenses	<u>143,965</u>
Operating income	<u>5,349</u>
Nonoperating revenues:	
Investment earnings	<u>11,355</u>
Total nonoperating revenues (expenses)	<u>11,355</u>
Income before transfers	16,704
Transfer out to General Fund	<u>(660)</u>
Increase in net assets	16,044
Total net assets - beginning	<u>234,937</u>
Total net assets - ending	<u>\$ 250,981</u>

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(In Thousands)

	Business-type Activities - <u>Enterprise Fund</u> Unemployment Compensation <u>Trust</u>
Cash flows from operating activities:	
Received from employers	\$ 139,457
Received from federal and local agencies	11,520
Payments to claimants and providers	<u>(147,384)</u>
Net cash provided (used) by operating activities	<u>3,593</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(660)</u>
Net cash provided (used) by noncapital financing activities	<u>(660)</u>
Cash flows from investing activities:	
Investment earnings	<u>11,355</u>
Net cash provided (used) by investing activities	<u>11,355</u>
Net increase (decrease) in cash and cash equivalents	14,288
Cash and cash equivalents - beginning	<u>218,923</u>
Cash and cash equivalents - ending	<u>\$ 233,211</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 5,349
Net change in assets and liabilities:	
Unemployment compensation premiums receivable	199
Due from other governments	(134)
Due from other funds - primary government	(81)
Accrued expenses and other liabilities	711
Due to other governments	1,130
Unemployment Compensation benefits payable	<u>(3,581)</u>
Net cash provided (used) by operating activities	<u>\$ 3,593</u>

(1) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

The Bureau of Employment Programs (the Bureau) is an agency of the State of West Virginia and as of June 30, 2005, consisted of two primary operating divisions: the Employment Service Division (ES), and the Unemployment Compensation Division (UC).

In addition, on October 6, 2004, Governor Bob Wise signed Executive Order No. 16-04 which transferred the Trade Adjustment Assistance (TAA) and Health Care Tax Credit (HCTC) Programs to the West Virginia Development Office effective November 1, 2004. These grant funded programs had revenue and expenses of approximately \$3,618 during the year ended June 30, 2004.

On May 4, 2005 Governor Joe Manchin III signed House Bill 2891 which incorporated the Bureau of Employment Programs into the West Virginia Department of Commerce. As a result of this action the Department of Commerce assumed certain management and financial oversight responsibilities over the Bureau of Employment Programs.

Also, on June 16, 2005 Governor Manchin signed Executive Order No. 5-05 which established the WORKFORCE West Virginia Division within the Department of Commerce. The Division is comprised of the Bureau of Employment Programs and the Governors Workforce Investment Division that was a division of the West Virginia Development Office. This reorganization was implemented and became effective July 1, 2005. The Governors Workforce Investment Division included the TAA and HCTC programs discussed above as well as several other significant state and federally funded workforce development programs.

The financial statements of the Bureau are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the State of West Virginia. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Bureau is reported as part of the primary government in the State of West Virginia Comprehensive Annual Financial Report.

The General Fund of the Bureau includes ES and the administrative activities of the UC. ES is an affiliate of the U.S. Employment Service, a division of the United States Department of Labor (USDOL), operating local offices throughout the State of West Virginia to serve those seeking and providing employment. Most local offices were historically identified as "Job Service," and conduct employment outreach, interviewing, testing, counseling and referral to placement, training and other services designed to ready individuals for employment.

The UC provides temporary income as partial compensation to unemployed workers. The Bureau has direct responsibility for operation of this program. This program is administered under the oversight of USDOL, which establishes guidelines and funds administrative costs from monies collected under provisions of the Federal Unemployment Tax Act. Both ES and UC are federal mandated partners in the one stop delivery system.

(b) Basis of Presentation

The accompanying financial statements of the Bureau have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(1) Summary of Significant Accounting Policies (Continued)

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The Bureau has no component units or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

When both restricted and unrestricted resources are available for use, generally it is the Bureau's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units, if applicable. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(1) Summary of Significant Accounting Policies (Continued)

FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bureau considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Significant revenues subject to accrual include business unemployment taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The following summarizes the major governmental funds that are presented in the accompanying financial statements:

- General Fund - The General Fund is the general operating fund of the Bureau. It is used to account for all financial resources obtained and spent for those services normally provided by the Bureau that are not accounted for in other funds, including the administrative services related to the Unemployment Compensation System (see below), and the operation of various federal programs funded by USDOL.
- Enterprise Funds - Enterprise funds are used to account for the operations of state agencies providing goods or services to the general public on a user-charge basis, and for any activity whose principal revenue sources meet any of the following criteria: debt backed solely by fees and charges; legal requirement to recover cost; and policy decision to recover cost. Based upon these criteria state unemployment compensation funds should be reported in enterprise funds.

The Bureau reports the following enterprise fund: The UC Trust fund is used to account for the operations of the UC Division, which is responsible for providing temporary income as partial compensation to unemployed workers.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include business unemployment taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Expenditures under the modified accrual basis of accounting are recognized when the related fund liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

(1) Summary of Significant Accounting Policies (Continued)

In accordance with OMB Circular A-87, all allowable indirect costs related to USDOL for the Bureau are allocated to federal grants in compliance with the applicable federal cost principles. The basis for this allocation is the percentage of salary dollars paid by each federal grant in comparison to the total salary dollars paid by all of the Bureau's federal grants.

(c) Budgetary Data

All financial operations of the Bureau, except for benefits and direct claims costs of the UC division are subject to a non-appropriated budget review and approval process in which the Bureau submits a financial plan for approval in a manner authorized by statute. Pursuant to West Virginia Code §5A-2-12, the Bureau submits a detailed budgetary schedule of general administrative expenses to the Secretary of the Department of Administration prior to the beginning of each fiscal year. The budgetary schedule is prepared on the cash basis. The cash basis is modified at year-end to allow for payment of invoices up to 31 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Bureau's overall financial plan, which includes revenue estimates developed by the Bureau and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories as well as for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each division as a whole must be approved by the State Legislature. The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund along with the reconciliation of budgetary information to GAAP is included in the Required Supplementary Information.

(d) Cash and Cash Equivalents

Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with outside financial institutions or the State Treasurers Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). Interest income from these investments are pro-rated to the Bureau at rates specified by the IMB based on the balance of the Bureau's deposits maintained in relation to the total deposits of all state agencies participating in the pool. The carrying value of the deposits reflected in the financial statements approximates fair values and approximates the value of the shares in the external pool. Such funds are available to the Bureau with overnight notice and are considered cash equivalents.

The Bureau is required by the West Virginia State Code to invest any funds in excess of current disbursement needs with the STO and related IMB. The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the IMB for investment in accordance with the West Virginia Code, policies set by the IMB, and provisions of bond indentures and trust agreements when applicable. The IMB is governed by a thirteen-member Board of Trustees. The Governor, the State Auditor and the State Treasurer are members of the Board, and the other members are appointed by the Governor. The Board was formed in 1997 to serve as the Trustee to hold certain public pension funds and insurance funds, as well as to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

(1) Summary of Significant Accounting Policies (Continued)

The Bureau's UC Trust Fund maintains a deposit account in the Federal Unemployment Insurance Trust Fund of the United States Treasury, and utilizes commercial banks for depositing amounts disbursed for unemployment benefit payments. All such funds are generally available to the Bureau with overnight notice, and are considered cash equivalents.

(e) Revenue and Receivables

The Bureau has one primary source of revenue for each fund type. The general fund's activities are supported by federal grants primarily on a reimbursement basis. Expenditures in excess of receipts are recorded as "due from other governments".

Revenue in the UC Trust Fund represents employer contributions for unemployment insurance. The Bureau recognizes as revenue and taxes receivable amounts due for periods ending on or before the balance sheet date, together with an allowance for estimated uncollectible employer contributions. When collected, these funds are held in trust until expended to pay unemployment benefits. The amounts on the financial statement are reported net of an allowance for doubtful accounts of \$2,920.

(f) Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

(g) Capital Assets

Capital assets, which consist primarily of office furniture and equipment of the Bureau, are reported in the applicable governmental or business-type activities columns in the statement of net assets of the government-wide financial statements. In accordance with the capitalization policy adopted by the Bureau for financial reporting, assets costing in excess of five thousand dollars are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Depreciation is computed for these assets using the straight-line method over the estimated economic useful lives ranging from 3-20 years. Total depreciation expense relating to the General Fund approximated \$420 for the fiscal year ended June 30, 2005. Accumulated depreciation relating to the General Fund fixed assets approximated \$752 at June 30, 2005. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005
(In Thousands, Unless Otherwise Noted)

(1) Summary of Significant Accounting Policies (Continued)

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets:				
Governmental activities				
Office furniture and equipment	\$ 2,336	\$ 67	\$ 984	\$ 1,419
Accumulated depreciation	<u>(1,456)</u>	<u>(420)</u>	<u>(1,124)</u>	<u>(752)</u>
Governmental activities capital assets, net	<u>\$ 880</u>	<u>\$ (353)</u>	<u>\$ (140)</u>	<u>\$ 667</u>

(h) Other Operating Revenue

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Balances classified as operating revenues and expenses are those which comprise the Bureau's ongoing operations. Principal operating revenues are charges to customers for use of the services. Principal operating expenses are the costs of providing the goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses, if any, are classified as non-operating in the financial statements.

(i) Compensated Absences, Including Postretirement Benefits

Employees fully vest in all earned but unused vacation and the Bureau accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Under the provisions of the West Virginia State Code, Bureau employees, upon retirement, may apply their accumulated annual and/or sick leave toward extending their health care insurance coverage, or they may alternatively choose to apply such accumulated leave toward additional credited service in the computation of their retirement benefits. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the Bureau. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit. The obligation associated with retiree health care benefits is funded on a pay-as-you-go basis. Using the termination payments method, the Bureau recognizes an obligation for unused sick leave as it is earned if it is probable that the employees will be compensated upon termination or retirement. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-retirement health insurance as a liability.

(j) Retirement Benefits

The Bureau's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Bureau, with employer contributions prescribed by PERS as a percentage of covered payroll.

(1) Summary of Significant Accounting Policies (Continued)

(k) Net Assets and Fund Balance

NET ASSETS - As required by GASB 34, the Bureau displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT - This component of net assets consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

RESTRICTED NET ASSETS - Restricted net assets should be reported when constraints placed on the net assets used are either externally imposed (for instance, by creditors, laws or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the Bureau's ability to use the resources to pay current liabilities.

The government-wide statement of net assets reports \$257,422 restricted assets, of which none is restricted by enabling legislation.

UNRESTRICTED NET ASSETS - Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". In the governmental environment, net assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

FUND BALANCE - General fund balance reservations principally represent encumbrances for outstanding purchase orders and commitments at June 30, 2005. The UC expendable trust fund balance is fully reserved for benefit payments to claimants.

(2) Deposits

The composition of cash and cash equivalents were as follows at June 30:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Cash on deposit with State Treasurer / IMB	\$ 289	\$ 289
Cash in bank	1,109	1,109
Cash in U.S. Treasury	<u>232,358</u>	<u>232,358</u>
	<u>\$ 233,756</u>	<u>\$ 233,756</u>

Cash on deposit with the State Treasurer is a non-safeguarded deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*. Additionally, such deposits are subject to the following IMB policies and procedures.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2005
 (In Thousands, Unless Otherwise Noted)

(2) Deposits (Continued)

Cash Liquidity Pool

Credit Risk

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

The following table provides information on the credit ratings of the Cash Liquidity pool's investments:

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percentage of Assets</u>
Commercial paper	P1	A-1	\$ 598,241	37.9%
U.S. Treasury bills	Aaa	AAA	259,398	16.4%
Corporate notes	Aaa	AAA	155,559	9.9%
Certificates of deposit	P1	A-1	152,999	9.7%
Agency bonds	Aaa	AAA	147,955	9.4%
Agency discount notes	P1	A-1	119,565	7.6%
Money market funds	Aaa	AAA	<u>4,241</u>	<u>0.3%</u>
Total rated investments			<u>\$ 1,437,958</u>	<u>91.2%</u>

The Bureau's ownership represents .02% of these amounts held by the IMB.

Unrated securities include repurchase agreements of \$141,050. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of credit risk

West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private organization that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities of the IMB are invested in the lending agent's money market fund.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2005
 (In Thousands, Unless Otherwise Noted)

(2) Deposits (Continued)

Interest rate risk

The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities for the various asset types in the Cash Liquidity pool:

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM</u>
Commercial paper	\$ 598,241	49
U.S. Treasury bills	259,398	30
Corporate notes	155,559	53
Certificates of deposit	152,999	42
Agency bonds	147,955	88
Repurchase agreements	141,050	1
Agency discount notes	119,565	52
Money market funds	<u>4,241</u>	1
 Total assets	 <u>\$ 1,579,008</u>	 45

Foreign currency risk

The Cash Liquidity pool has no securities that are subject to foreign currency risk.

At June 30, 2005, the carrying value of amounts on deposit with the U.S. Treasury in the Federal Unemployment Insurance Trust Fund approximated \$232,357 while \$854 of deposits were held in commercial bank accounts that are utilized for collection of unemployment taxes and benefit payments. Substantially all of the Bureau's deposits in commercial bank accounts are collateralized by securities held by the pledging financial institution, but not in the Bureau's name.

(3) Leases

The Bureau has various lease agreements for its current central office buildings and various hearing and field offices throughout West Virginia. The Bureau also leases a small number of vehicles.

All State agencies are required to have language in their lease agreements which allows termination by either party with 30 days notice. The Bureau has entered into several such agreements. The Bureau plans to honor the original terms of all such agreements and, therefore, has provided disclosure of these "operating" leases as though they were noncancelable. These leases are classified as operating leases with the lease payments recorded as rent expense as they become payable. Contingent rentals on operating leases for certain equipment are determined based on usage of the equipment. In addition, certain operating leases for office space include rent escalation provisions based on increases in the lessor's real property taxes over taxes paid in a base year and annual renewal options.

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2005
 (In Thousands, Unless Otherwise Noted)

(3) Leases (Continued)

Future minimum rentals under operating leases for the Bureau at June 30, 2005 are as follows:

Rentals due in fiscal year:	
2006	\$ 2,075
2007	918
2008	661
2009	576
2010	306
Thereafter	<u>212</u>
Total minimum lease payments	<u>\$ 4,748</u>

Rental expense for the minimum rentals under operating leases for the year ended June 30, 2005 was \$2,183.

(4) Compensated Absences

The liability for compensated absences is generally liquidated in the fund for which the liability is recorded. Changes in compensated absences balances are as follows:

	<u>Beginning Balance</u>	<u>Additions/ Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
Compensated absences	<u>\$ 5,654</u>	<u>\$ (332)</u>	<u>\$ 5,322</u>	<u>\$ 1,347</u>

The Bureau's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and is determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Bureau's unfunded obligation arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under the West Virginia Public Employees Retirement System.

(5) Pension Plan

(a) Plan Description

The Bureau contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. CPRB issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5, Room 1000, Charleston WV 25305.

(b) Funding Policy

The PERS funding policy has been established by action of the State Legislature. State statute requires plan members to contribute 4.5% of their annual covered salary. Effective July 1, 2004, the employer contribution rate from the Bureau increased from 9.5% to 10.5% of the covered employee's salaries. The contribution requirements of plan members and the Bureau are established and may be amended by the PERS Board of Trustees. The Bureau's contributions to PERS for the years ended June 30, 2005, 2004, and 2003 were \$1,475, \$1,645, and \$1,460 respectively, equal to the required contributions for each year.

(6) Related Party Transactions

During the course of operations, the Bureau enters into transactions with other agencies of the State of West Virginia. These transactions consist of normal Bureau/employer transactions or fees for services paid to other State enterprise or internal service funds, as set forth below:

	General Fund	Unemployment Compensation Trust
Employer premiums revenue from other State agencies	\$ -	\$ 1,367
Employee benefits and other costs paid to other State agencies	8,165	-

(7) Commitments and Contingencies

(a) Risk Management

The Bureau is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management, the Public Employees Insurance Agency, and the Workers' Compensation Commission to account for and finance uninsured risks of losses for State agencies, institutions of higher education, and component units.

(7) Commitments and Contingencies (Continued)

The Bureau has obtained health coverage for its employees through its participation in the Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA, the Bureau has transferred its risk related to health coverage for employees. Additionally, the Bureau has obtained coverage for job-related injuries through its participation in the public entity risk pool, the Workers' Compensation Commission.

The Bureau participates in the West Virginia State Board of Risk and Insurance Management (WVBRIM), a public entity risk pool, to obtain coverage for general liability and property damage. WVBRIM is a State agency established by the Legislature in 1957 to provide property and liability insurance coverage for state and local governmental entities including the Bureau. These coverages are offered in exchange for an annual premium. There have been no claim settlements exceeding the Bureau's general liability insurance coverage for the past three fiscal years.

During the normal course of operations, the Bureau incurs certain routine claims. The Legal Counsel for the Bureau has evaluated the potential loss for these claims and believes that the insurance coverage provided by WVBRIM is adequate to cover any potential losses from these claims.

These entities issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to these specific entities.

The Bureau participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal awarding agency cannot be determined at this time. The Bureau expects such amounts, if any, to be immaterial to the financial position of the Bureau. The Bureau records these disallowed audit adjustments for questioned costs in the period the audit is finalized.

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2005
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ 2,475,943	\$ 2,475,943
2005 FY Gross Revenue	-	-	25,432,041	25,432,041
Estimated Revenue FY 2005	63,806,098	63,806,098	-	(63,806,098)
Amounts Available For Appropriation	<u>63,806,098</u>	<u>63,806,098</u>	<u>27,907,984</u>	<u>(35,898,114)</u>
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	21,301,104	21,301,104	14,368,213	6,932,891
002-Personal Services (Without Payroll Deductions)	-	-	-	-
003-Payroll Reimbursements	-	-	-	-
004-Annual Increment	507,337	507,337	-	507,337
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	196,230	196,230	98,909	97,321
011-Social Security Matching	1,668,346	1,668,346	1,056,335	612,011
012-Public Employees' Insurance	3,003,392	3,003,392	2,242,773	760,619
013-Other Health Insurance	66,891	66,891	-	66,891
014-Workers Compensation	183,583	183,583	117,089	66,494
015-Unemployment Compensation	49,892	49,892	66,231	(16,339)
016-Pension & Retirement	2,289,886	2,289,886	1,475,762	814,124
Current Expenses:				
020-Office Expenses	10,719,355	10,719,355	273,439	10,445,916
021-Printing and Binding	621,129	621,129	213,999	407,130
022-Rental Expense	1,684,967	1,684,967	2,152,753	(467,786)
023-Utilities	242,550	242,550	156,867	85,683
024-Telecommunications	760,050	760,050	736,686	23,364
025-Contractual and Professional	9,415,511	9,415,511	894,443	8,521,068
026-Travel	739,532	739,532	599,945	139,587
027-Computer Services	918,999	918,999	2,406,916	(1,487,917)
029-Vehicle Rental	52,576	52,576	30,097	22,479
030-Rentals (Machine and Miscellaneous)	193,700	193,700	208,315	(14,615)
031-Association Dues and Professional Memberships	65,000	65,000	25,770	39,230
032-Fire, Auto, Bond, and Other Insurance	245,584	245,584	245,584	-
034-Clothing, Household and Recreational Supplies	18,500	18,500	26,991	(8,491)
035-Advertising and Promotional	50,571	50,571	13,068	37,503
036-Vehicle Operating Expense	26,000	26,000	14,324	11,676
037-Research, Educational and Medical Supplies	15,000	15,000	-	15,000
038-Routine Maintenance Contracts	296,550	296,550	439,278	(142,728)
042-Hospitality	24,200	24,200	42,227	(18,027)
043-Educational Training (Stipends)	42,500	42,500	13,662	28,838
051-Miscellaneous	69,000	69,000	43,578	25,422
052-Training and Development	77,000	77,000	46,151	30,849
053-Postal and Freight	75,000	75,000	76,459	(1,459)
054-Computer Supplies	75,000	75,000	193,853	(118,853)
056-Attorney Legal Service Payments	20,000	20,000	5,188	14,812
058-Miscellaneous Equipment Purchases	200,000	200,000	32,267	167,733
061-Office & Communication Equipment Repairs	120,400	120,400	16,178	104,222
062-Research, Educational, & Medical Equipment Repairs	500	500	-	500
063-Building & Household Equipment Repairs	21,750	21,750	4,715	17,035
064-Routine Maintenance Of Buildings	101,363	101,363	26,311	75,052
065-Vehicle Repairs	16,950	16,950	-	16,950
068-Other Repairs and Alterations	10,900	10,900	-	10,900
070-Office and Communication Equipment	816,567	816,567	1,418	815,149
071-Medical Equipment	8,000	8,000	-	8,000
073-Household Equipment and Furnishings	10,000	10,000	-	10,000
074-Building Equipment	21,000	21,000	-	21,000
075-Vehicles	31,567	31,567	31,482	85
077-Books and Periodicals	600	600	2,661	(2,061)
078-Other Capital Equipment	126,566	126,566	-	126,566
081-Payment Of Claims	-	-	105,167	(105,167)
096-Other Interest and Penalties	-	-	892	(892)
099-Natural Disaster Grants	-	-	-	-
100-Fund Transfers	700,000	700,000	400,000	300,000
124-Cost Allocation Adjustment/Settlement	-	-	(2,092,391)	2,092,391
128-Federal Subrecipient Disbursement	2,300,000	2,300,000	346,203	1,953,797
143-Building Improvements	-	-	5,542	(5,542)
170-Computer Equipment	3,500,000	3,500,000	319,057	3,180,943
171-Computer Software	105,000	105,000	134,430	(29,430)
Total Charges To Appropriations	<u>63,806,098</u>	<u>63,806,098</u>	<u>27,618,837</u>	<u>36,187,261</u>
Budgetary Fund Balance, June 30, 2005	\$ -	\$ -	\$ 289,147	\$ 289,147

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
YEAR ENDED JUNE 30, 2005
(in thousands)

(1) Budget and Actual Comparison

The Bureau's General Fund has a legislatively approved budget. However, certain monies reported within the General Fund in accordance with accounting principles generally accepted in the United States of America (GAAP), are not considered appropriated funds in accordance with the Bureau's budgetary reporting policy. Accordingly, these amounts have not been reported in the Bureau's Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund. A reconciliation of the net change in fund balance for the year ended June 30, 2005, on the budgetary basis to the GAAP basis for the General Fund follows:

Net change in fund balance - budgetary basis	\$ 289
Basis of accounting differences (budgetary to GAAP)	(5,261)
Unbudgeted funds	256
Transfers	<u>660</u>
Net change in fund balance - GAAP basis	<u>\$ (4,056)</u>

OTHER FINANCIAL INFORMATION

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 3458 Flood Disaster
 Year Ended June 30, 2005
 (In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ 11,267	\$ 11,267
2005 FY Gross Revenue	-	-	-	-
Estimated Revenue FY 2005	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Amounts Available for Appropriation	<u>25,000</u>	<u>25,000</u>	<u>11,267</u>	<u>(13,733)</u>
Current Expenses:				
025-Contractual and professional	<u>25,000</u>	<u>25,000</u>	<u>11,267</u>	<u>13,733</u>
Total Charges to Appropriations	<u>25,000</u>	<u>25,000</u>	<u>11,267</u>	<u>13,733</u>
Budgetary Fund Balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 3450 Administration and Service
 Year Ended June 30, 2005
 (In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ 1,336,678	\$ 1,336,678
2005 FY Gross Revenue	-	-	24,393,883	24,393,883
Estimated Revenue FY 2005	48,618,941	48,618,941		(48,618,941)
Amounts Available For Appropriation	48,618,941	48,618,941	25,730,561	(22,888,380)
Charges To Appropriations (Outflows):				
001-Personal Services (With Payroll Deductions)	21,301,104	21,301,104	14,368,213	6,932,891
002-Personal Services (Without Payroll Deductions)	-	-	-	-
003-Payroll Reimbursements	-	-	-	-
004-Annual Increment	507,337	507,337	-	507,337
Employee Benefits:				
010-Personnel Division & Public Employees Insurance	196,230	196,230	98,909	97,321
011-Social Security Matching	1,668,346	1,668,346	1,056,335	612,011
012-Public Employees' Insurance	3,003,392	3,003,392	2,242,773	760,619
013-Other Health Insurance	66,891	66,891	-	66,891
014-Workers Compensation	183,583	183,583	117,089	66,494
015-Unemployment Compensation	49,892	49,892	66,231	(16,339)
016-Pension & Retirement	2,289,886	2,289,886	1,475,762	814,124
Current Expenses:				
020-Office Expenses	717,155	717,155	273,439	443,716
021-Printing and Binding	612,629	612,629	213,999	398,630
022-Rental Expense	1,684,967	1,684,967	2,152,753	(467,786)
023-Utilities	242,550	242,550	156,867	85,683
024-Telecommunications	760,050	760,050	736,686	23,364
025-Contractual and Professional	5,121,354	5,121,354	853,588	4,267,766
026-Travel	733,232	733,232	588,601	144,631
027-Computer Services	908,999	908,999	2,406,916	(1,497,917)
029-Vehicle Rental	52,576	52,576	30,097	22,479
030-Rentals (Machine and Miscellaneous)	191,500	191,500	208,315	(16,815)
031-Association Dues and Professional Memberships	45,000	45,000	25,770	19,230
032-Fire, Auto, Bond, and Other Insurance	245,584	245,584	245,584	-
034-Clothing, Household and Recreational Supplies	18,500	18,500	26,991	(8,491)
035-Advertising and Promotional	47,071	47,071	13,068	34,003
036-Vehicle Operating Expense	25,000	25,000	14,324	10,676
037-Research, Educational and Medical Supplies	15,000	15,000	-	15,000
038-Routine Maintenance Contracts	296,550	296,550	414,553	(118,003)
042-Hospitality	20,000	20,000	42,227	(22,227)
043-Educational Training (Stipends)	17,500	17,500	13,662	3,838
051-Miscellaneous	50,000	50,000	43,578	6,422
052-Training and Development	77,000	77,000	46,151	30,849
053-Postal and Freight	75,000	75,000	76,459	(1,459)
054-Computer Supplies	75,000	75,000	193,853	(118,853)
056-Attorney Legal Service Payments	20,000	20,000	5,188	14,812
058-Miscellaneous Equipment Purchases	200,000	200,000	30,236	169,764
061-Office & Communication Equipment Repairs	112,000	112,000	16,178	95,822
062-Research, Educational, & Medical Equipment Repairs	500	500	-	500
063-Building & Household Equipment Repairs	13,750	13,750	4,715	9,035
064-Routine Maintenance Of Buildings	92,963	92,963	26,311	66,652
065-Vehicle Repairs	12,750	12,750	-	12,750
068-Other Repairs and Alterations	2,500	2,500	-	2,500
070-Office and Communication Equipment	800,000	800,000	360	799,640
071-Medical Equipment	8,000	8,000	-	8,000
073-Household Equipment and Furnishings	10,000	10,000	-	10,000
074-Building Equipment	3,000	3,000	-	3,000
075-Vehicles	22,000	22,000	15,741	6,259
077-Books and Periodicals	600	600	2,661	(2,061)
078-Other Capital Equipment	117,000	117,000	-	117,000
081-Payment Of Claims	-	-	105,167	(105,167)
096-Other Interest and Penalties	-	-	892	(892)
099-Natural Disaster Grants	-	-	-	-
124-Cost Allocation Adjustment/Settlement	-	-	(3,414,827)	3,414,827
128-Federal Subrecipient Disbursement	2,300,000	2,300,000	346,203	1,953,797
143-Building Improvements	-	-	5,542	(5,542)
170-Computer Equipment	3,500,000	3,500,000	113,747	3,386,253
171-Computer Software	105,000	105,000	24,686	80,314
Total Charges To Appropriations	48,618,941	48,618,941	25,485,593	23,133,348
Budgetary Fund Balance, June 30, 2005	\$ -	\$ -	\$ 244,968	\$ 244,968

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
 OTHER FINANCIAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 Fund 3452 Federal Non-appropriated
 Year Ended June 30, 2005
 (In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ -	\$ -
2005 FY Gross Revenue	-	-	-	-
Estimated Revenue FY 2005	10,000,000	10,000,000	-	(10,000,000)
Amounts Available for Appropriation	<u>10,000,000</u>	<u>10,000,000</u>	<u>-</u>	<u>(10,000,000)</u>
Current Expenses:				
020-Office Expenses	10,000,000	10,000,000	-	10,000,000
Total Charges to Appropriations	<u>10,000,000</u>	<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>
Current Expenses:				
Budgetary Fund Balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 8835 Consolidated Federal Funds
Year Ended June 30, 2005
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ 1,061,977	\$ 1,061,977
Estimated Revenue FY 2005	4,257,657	4,257,657	-	(4,257,657)
2005 FY Gross Revenue	-	-	660,000	660,000
Amounts Available for Appropriation	<u>4,257,657</u>	<u>4,257,657</u>	<u>1,721,977</u>	<u>(2,535,680)</u>
Charges to Appropriations (Outflows):				
022-Rental Expense	-	-	-	-
025-Contractual and Professional	4,257,657	4,257,657	29,588	4,228,069
026-Travel	-	-	11,344	(11,344)
027-Computer Services	-	-	-	-
038-Routine Maintenance Contracts	-	-	24,725	(24,725)
051-Miscellaneous	-	-	-	-
058-Miscellaneous Equipment Purchases	-	-	2,031	(2,031)
070-Office and Communication Equipment	-	-	1,058	(1,058)
075-Vehicles	-	-	15,741	(15,741)
124-Cost Allocation Adjustment/Settlement	-	-	1,322,436	(1,322,436)
170-Computer Equipment	-	-	205,310	(205,310)
171-Computer Software	-	-	109,744	(109,744)
Total Charges To Appropriations	<u>4,257,657</u>	<u>4,257,657</u>	<u>1,721,977</u>	<u>2,535,680</u>
Budgetary Fund Balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VIRGINIA BUREAU OF EMPLOYMENT PROGRAMS
OTHER FINANCIAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
Fund 3451 Interest on Employers Delinquent Contributions Fund
Year Ended June 30, 2005
(In Dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance July 1				
Resources (Inflows)				
Beginning Balance 7/1/04	\$ -	\$ -	\$ 66,021	\$ 66,021
Estimated Revenue FY 2005	904,500	904,500		(904,500)
2005 FY Gross Revenue			378,158	378,158
Amounts Available For Appropriation	<u>904,500</u>	<u>904,500</u>	<u>444,179</u>	<u>(460,321)</u>
Charges To Appropriations (Outflows):				
020-Office Expenses	2,200	2,200	-	2,200
021-Printing and Binding	8,500	8,500	-	8,500
025-Contractual and Professional	11,500	11,500	-	11,500
026-Travel	6,300	6,300	-	6,300
027-Computer Services	10,000	10,000	-	10,000
030-Rentals (Machine and Miscellaneous)	2,200	2,200	-	2,200
031-Association Dues and Professional Memberships	20,000	20,000	-	20,000
035-Advertising and Promotional	3,500	3,500	-	3,500
036-Vehicle Operating Expense	1,000	1,000	-	1,000
042-Hospitality	4,200	4,200	-	4,200
043-Educational Training (Stipends)	25,000	25,000	-	25,000
051-Miscellaneous	19,000	19,000	-	19,000
061-Office & Communication Equipment Repairs	8,400	8,400	-	8,400
063-Building & Household Equipment Repairs	8,000	8,000	-	8,000
064-Routine Maintenance Of Buildings	8,400	8,400	-	8,400
065-Vehicle Repairs	4,200	4,200	-	4,200
068-Other Repairs and Alterations	8,400	8,400	-	8,400
070-Office and Communication Equipment	16,567	16,567	-	16,567
074-Building Equipment	18,000	18,000	-	18,000
075-Vehicles	9,567	9,567	-	9,567
078-Other Capital Equipment	9,566	9,566	-	9,566
100-Fund Transfers	700,000	700,000	400,000	300,000
Total Charges To Appropriations	<u>904,500</u>	<u>904,500</u>	<u>400,000</u>	<u>504,500</u>
Budgetary Fund Balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,179</u>	<u>\$ 44,179</u>

COMPLIANCE AND INTERNAL CONTROL REPORT

INDEPENDENT AUDITORS' 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

The Commissioner
West Virginia Bureau of Employment Programs

We have audited the financial statements of the West Virginia Bureau of Employment Programs (the Bureau) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005. 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

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau's 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 other matters involving the internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated September 23, 2005.

This report is intended solely for the information and use of management, the State of West Virginia, grantor agencies, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Suttle & Stalnaker, PLLC

September 23, 2005

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