

STATE OF WEST VIRGINIA
AUDIT REPORT
OF

WEST VIRGINIA STATE BOARD OF INVESTMENTS
DECEMBER 31, 1991



OFFICE OF LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305

WEST VIRGINIA STATE BOARD OF INVESTMENTS

DECEMBER 31, 1991

West Virginia



LEGISLATIVE AUDITOR

CHARLESTON
February 1, 1992

To Members of the West Virginia Legislature:

In compliance with the West Virginia Code, Chapter 12, Article 6, Section 15, one thousand nine hundred thirty-one, as amended, transmitted herewith is the report of the balance sheet of the West Virginia State Board of Investments. This report covers the calendar year 1991.

Respectfully submitted,

Theodore L. Shanklin
Theodore L. Shanklin, CPA, Director
Legislative Postaudit Division

TLS/ela

WEST VIRGINIA STATE BOARD OF INVESTMENTS

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WEST VIRGINIA STATE BOARD OF INVESTMENTS

INTRODUCTION

The West Virginia State Board of Investments was created on March 11, 1967 by the passage of Senate Bill Number 300 by the 1967 Regular Session of the West Virginia Legislature. As stated in Chapter 12, Article 6, Section 1 of the West Virginia Code, the original legislation stated the purpose of the Board was,

"... to provide a centralization of the investment responsibility for state funds and to enlarge the classes of securities in which public funds may be invested."

Consistent with this objective, Chapter 12, Article 6, Section 7 of the Code stated in part,

"All duties vested by law in any agency or board of the state relating to the investment or reinvestment of moneys, and the purchase, sale or exchange of any investment or securities, of and for any funds, are hereby transferred to and shall be exercised and performed for such fund by the board: . . ."

The 1978 Regular Session of the West Virginia Legislature made major revisions to the investment law by establishing the "Consolidated Fund" and "Consolidated Pension Fund" and allowing for investment by political subdivisions. These changes were detailed in Chapter 12, Article 6, Section 8 of the Code which stated,

"(a) There is hereby established a special investment fund to be managed by the board and designated as the "consolidated pension fund" for the common investment of pension funds. All administrators, custodians or trustees of the various pension funds are hereby authorized to make moneys available to the board for investment. Pension funds received by the board shall be deposited in the consolidated pension fund. Any security deposited by the various pension funds shall be valued at the prevailing market price on the day of deposit.

(b) There is hereby also established a special investment fund to be managed by the board and designated as the "consolidated fund". The consolidated fund shall consist of a special account for the common investment of state funds designated as the "state account" and a special account for the common investment of local government funds designated as the "local government account". Moneys in both accounts may be combined for the common investment of the consolidated fund on an equitable basis.

(c) Each board, commission, department, official or agency charged with the administration of state funds is hereby authorized to make moneys available to the board for investment. State funds received by the board shall be deposited in the state account.

(d) Each political subdivision of this state through its treasurer or equivalent financial officer is hereby authorized to enter into agreements with the board for the investment of moneys of such political subdivision: *Provided*, That it first be determined by the treasurer for such political subdivision that the available interest rate offered by an acceptable depository in such treasurer's county be less than the interest rate, net of administrative fees referred to in article six, chapter twelve of this code, offered it through the state board of investments. Local government funds received by the board pursuant to such agreements shall be deposited in the local government account.

(e) Each county board of education through its treasurer is hereby authorized to enter into agreements with the board of investments for the investment of moneys of such county board of education: *Provided, however*, That it first be determined by the treasurer for such county board of education that the available interest rate offered by an acceptable depository in such treasurer's county be less than the interest rate, net of administrative fees referred to in article six, chapter twelve of this code, offered it through the state board of investments.

(f) Moneys held in the various funds and accounts administered by the board shall be invested as permitted in section nine and subject to the restrictions contained in section ten of this article. The board shall maintain records of the deposits and withdrawals of each participant and the performance of the various funds and accounts. The board shall also establish such rules and regulations for the administration of the various funds and accounts established by this section as it shall deem necessary for the administration thereof, including but not limited to (1) the specification of minimum amounts which may be deposited in any fund or account and minimum periods of time for which deposits will be retained; (2) creation of reserves for losses; (3) provision for payment of expenses from earnings; and (4) distribution of the earnings in excess of such expenses or allocation of losses to the several participants in an equitable manner: *Provided*, That in the event any moneys made available to the board may not lawfully be combined for investment or deposited in the consolidated funds established by this section, the board may create special accounts and may administer and invest such moneys in accordance with the restrictions specially applicable thereto. "

Major revisions were made to the State Board of Investments as a result of the passage of Senate Bill Number 621 by the 1989 Regular Session of the West Virginia Legislature and Senate Bill Number 109 by the 1990 Regular Session of the West Virginia Legislature. Whereas, the Board had consisted of three ex-officio members; the Governor, the State Auditor and State Treasurer, four additional members were added to make a total of seven members. Other changes involved other areas of the Board's organization, operation of the Board's management service fee account, restrictions on and authorizations of investments and additional audit requirements. The text of the various amendments to the West Virginia Code are as follows:

"§ 12-6-3. State board of investments continued; body corporate; members; appointment of certain members; qualifications and term of office.

(a) The state board of investments is hereby continued as a body corporate of the state authorized to exercise all of the powers and functions granted to it pursuant to this article. There shall be seven members of the State Board of Investments. The governor, or his designee, state treasurer and state auditor shall be the members of the board. There shall be four members appointed by the governor: Provided, That no more than three such appointed members may belong to the same political party.

(b) The members appointed by the governor shall be appointed from a list of twelve persons submitted jointly by the governor, the state treasurer, and the state auditor. No more than two names submitted by the governor may be appointed as members to the board. Of the members appointed by the governor, two shall be members of the financial community, one shall be a certified public accountant, and one shall be an attorney with experience in finance and investment matters. Appointments shall be made by the governor with the advice and consent of the Senate.

(c) Appointed members shall serve for a term of six years and may be reappointed at the expiration of their terms. In the event of a vacancy among appointed members, an appointment shall be made to fill the unexpired term.

(d) Appointed members of the board shall serve without compensation, but shall be entitled to their reasonable and necessary expenses actually incurred in discharging their duties under this article.

§ 12-6-4. Officers; executive secretary; term; organization; board staff; surety bonds for members and employees.

(a) The governor shall be the chairman and the custodian of all funds, securities and assets held by the board. The board shall elect an executive secretary to serve for a term of six years, such election to be held at the board's first meeting after the first effective date of this article. Effective with any vacancy in the position of executive secretary, the board shall appoint an executive secretary to serve at the will and pleasure of the board, which executive secretary may not be a member of the board: Provided, That the executive secretary shall have at least a bachelor's degree in either business administration or accounting in an accredited program and/or have at least five years' experience in investment management or securities markets, said experience to have occurred within the ten years next preceding the date of appointment of the secretary: Provided, however, That the executive secretary may be paid a salary as determined by the board out of appropriations by the Legislature: Provided further, That the board shall appoint a staff to act for the board.

(b) The board shall meet quarterly and may include in its bylaws procedures for the calling and holding of additional meetings.

(c) Each member of the board shall give a separate and additional fidelity bond from a surety company qualified to do business within this state in a penalty amount of two hundred fifty thousand dollars for the faithful performance of his duties as a member of the board. In addition, the board will purchase a blanket bond for the faithful performance of its duties in the amount of five million dollars in excess of the two hundred fifty thousand dollar individual bond required of each member by the provisions of this section. The board may require a fidelity bond from a surety company qualified to do business in this state for any person who has charge of, or access to, any securities, funds or other moneys held by the board, and the amount of such fidelity bond shall be fixed by the board. The premiums payable on all fidelity bonds shall be an expense of the board.

§ 12-6-5. Powers of the board.

The board may exercise all powers necessary or appropriate to carry out and effectuate its corporate purposes. The board may:

- (1) Adopt and use a common seal and alter the same at pleasure;
- (2) Sue and be sued;
- (3) Enter into contracts and execute and deliver instruments;
- (4) Acquire (by purchase, gift or otherwise), hold, use and dispose of real and personal property, deeds, mortgages and other instruments;
- (5) Promulgate and enforce bylaws and rules for the management and conduct of its affairs;
- (6) Retain and employ legal, accounting, financial and investment advisors and consultants;
- (7) Acquire (by purchase, gift or otherwise), hold, exchange, pledge, lend and sell or otherwise dispose of securities and invest funds in interest earning deposits;
- (8) Maintain accounts with banks, securities dealers and financial institutions both within and outside this state;
- (9) Engage in financial transactions whereby securities are purchased by the board under an agreement providing for the resale of such securities to the original seller at a stated price;
- (10) Engage in financial transactions whereby securities held by the board are sold under an agreement providing for the repurchase of such securities by the board at a stated price;
- (11) Consolidate and manage moneys, securities and other assets of the pension funds and other funds and accounts of the state and the moneys of political subdivisions which may be made available to it under the provisions of this article;
- (12) Enter into agreements with political subdivisions of the state whereby moneys of such political subdivisions are invested on their behalf by the board;
- (13) Charge and collect administrative fees from political subdivisions for its services;
- (14) Exercise all powers generally granted to and exercised by the holders of investment securities with respect to management thereof;
- (15) Contract with one or more banking institutions in or outside the state for the custody, safekeeping and management of securities held by the board; and
- (16) Develop and implement a centralized receipts processing center.

§ 12-6-6. Costs and expenses; fees for services; special revenue account; costs of determining third parties' liability; recoupment of investment losses.

(a) The board shall make a charge against the earnings of the various funds managed by the board for all necessary expenses of the board. The charge shall be on a pro rata basis of actual earnings of the various funds managed by the board. The charge shall be deposited to the credit of the general revenue fund.

(b) There is hereby created in the state treasury a special revenue account to be known as the "loss expenses account". The purpose of this account is to provide funds to the board of investments to pay costs, fees and expenses incurred, or to be incurred, for the following: (1) Investigation and pursuit of claims against third parties for the investment losses incurred during the period beginning the first day of August, one thousand nine hundred eighty-four, and ending on the thirty-first day of January, one thousand nine hundred eighty-nine; (2) for consulting services regarding the restructuring of the office of the treasurer following said losses; and (3) for implementation of the recommendations made as a result of the consultations regarding restructuring. That special revenue account shall be funded by depositing income derived by the board from securities lending and recoveries from third parties. The board is authorized to deposit into the special revenue account, and to expend in accordance with the provisions of this section, those funds received from such recoveries and not more than two million dollars annually from income derived by the board from securities lending. Funds in the loss expenses account in excess of reasonably estimated costs, fees and expenses for any fiscal year and any funds remaining in such special revenue account at the end of each fiscal year after expenditures, for the purposes specified above, may be transferred by the board to its "liquidity investment pool", to be used, in such manner as the board determines, to eliminate the present imbalance in the state accounts caused by the investment losses described above in this subsection. The authority for this special revenue account expires on the thirtieth day of June, one thousand nine hundred ninety-five.

§ 12-6-9. Permissible investments.

Notwithstanding the restrictions which may otherwise be provided by law as to the investment of funds, the board may invest funds made available to it in any of the following:

(a) Any direct obligation of, or obligation guaranteed as to the payment of both principal and interest by, the United States of America;

(b) Any evidence of indebtedness issued by any United States government agency guaranteed as to the payment of both principal and interest, directly or indirectly, by the United States of America including, but not limited to, the following: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Export-Import Bank, Federal Financing Bank, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association and Federal Farm Credit Banks;

(c) Any evidence of indebtedness issued by the Federal National Mortgage Association to the extent such indebtedness is guaranteed by the Government National Mortgage Association;

(d) Any evidence of indebtedness that is secured by a first lien deed or trust or mortgage upon real property situate within this state, if the payment thereof is substantially insured or guaranteed by the United States of America or any agency thereof;

(e) Direct and general obligations of this state;

(f) Any undivided interest in a trust, the corpus of which is restricted to mortgages on real property and, unless all of such property is situate within the state and insured, such trust at the time of the acquisition of such undivided interest, is rated in one of the three highest rating grades by an agency which is nationally known in the field of rating pooled mortgage trusts;

(g) Any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association organized and operating in the United States: Provided, That any such security is, at the time of its acquisition, rated in one of the three highest rating grades by an agency which is nationally known in the field of rating corporate securities: Provided, however, That if any commercial paper and/or any such security will mature within one year from the date of its issuance, it shall, at the time of its acquisition, be rated in one of the two highest rating grades by such an agency: Provided further, That any such security not rated in one of the two highest rating grades by any such agency and commercial paper or other evidence of indebtedness of any private corporation or association shall be purchased only upon the written recommendation from an investment adviser that has over three hundred million dollars in other funds under its management;

(h) Negotiable certificates of deposit issued by any bank, trust company, national banking association or savings institution organized and operating in the United States, which mature in less than one year and are fully collateralized;

(i) Interest earning deposits including certificates of deposit, with any duly designated state depository, which deposits are fully secured by a collaterally secured bond as provided in section four [§ 12-1-4], article one of this chapter; and

(j) Any corporate stock of any private corporation or association organized and operating in the United States and which is also listed on the Standard and Poor's List of 500.

§ 12-6-9c. Authorization of additional investments.

Notwithstanding the restrictions which may otherwise be provided by law with respect to the investment of funds, the state board of investments, all administrators, custodians or trustees of pension funds, each political subdivision of this state and each county board of education is authorized to invest funds in the securities of or any other interest in any investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. § 80a, the portfolio of which is limited to direct obligations of or obligations guaranteed as to the payment of both principal and interest by the United States of America and to repurchase agreements fully collateralized by United States government obligations: Provided, That the investment company or investment trust takes delivery of the collateral either directly or through an authorized custodian.

§ 12-6-10. Restrictions on investments.

Moneys on deposit in the consolidated fund and the consolidated pension fund shall be invested as permitted by section nine [§ 12-6-9] of this article subject to the restrictions and conditions contained in this section:

- (1) At no time shall more than seventy-five percent of the portfolio of either fund be invested in securities described in subdivision (g) of said section nine;
- (2) At no time shall more than twenty percent of the portfolio of either fund be invested in securities described in said subdivision (g) which mature within one year from the date of issuance thereof;
- (3) At no time shall more than three percent of the portfolio of either fund be invested in securities issued by a single private corporation or association;
- (4) At no time shall more than twenty percent of the portfolio of the consolidated pension fund be invested in securities described in subdivision (j) of section nine [§ 12-6-9(j)] of this article; and
- (5) At no time may any of the consolidated fund be invested in securities described in subdivision (j) of section nine of this article.

For the purpose of making the computations required by this section, securities shall be valued in accordance with generally accepted accounting principles.

§ 12-6-15. Audits.

There shall be a continuous postaudit conducted by the legislative auditor of the investment transactions of the board, and a copy thereof for the preceding calendar year shall be furnished to each member of the Legislature on or before the first day of February of each year. The board shall further cause to be conducted a quarterly internal audit, by the state treasurer's staff using generally accepted government auditing standards, of all investment transactions of the board and an annual external audit, by a nationally recognized accounting firm in conjunction with the annual federal audit, of all investment transactions of the board: Provided, That the board shall on a monthly basis provide to each political subdivision, state agency and any other entity investing moneys in the consolidated fund or consolidated pension fund an itemized account reflecting the portfolio value of the investments of each said political subdivision, state agency and any other entity in the consolidated fund or consolidated pension fund. The board shall further provide a monthly statement reflecting the interest earned by each said political subdivision, state agency or other investing entity and the method by which said interest has been calculated. "

Further, Senate Bill Number 279 passed by the 1990 Regular Session of the West Virginia Legislature forbid the pursuance of recovery of overpaid monies from local governments as set forth below:

"§ 12-6-5a. Legislative findings and limitation on certain board actions.

(a) The Legislature hereby finds and declares that, during the period beginning the first day of August, one thousand nine hundred eighty-four, and ending on the thirty-first day of January, one thousand nine hundred eighty-nine, certain overapportionments or overpayments of interest earnings were made by the board of investments to local government participants in the consolidated investment fund local government account.

The Legislature also finds and declares that said participants were not at fault for any losses incurred by the consolidated fund during the aforesaid period, and that the participants were justified in accepting and using the overapportionments or overpayments of interest earnings credited to their accounts.

The Legislature further finds and declares that attempts by the board of investments, the state or any other state officer or agency to recover the overapportionments or overpayments would harm the public good and create economic hardship for local governments, and, therefore, said overapportionments or overpayments ought not to be subject to recovery by the board or any other state officer or agency.

(b) Neither the state, the board of investments nor any other state officer or agency may expend any funds or permit any personnel to seek, or attempt to recover, from participants in the consolidated fund local government account any moneys received by such participants solely as a result of erroneous allocation of interest earnings to the participants' account during the period of time beginning the first day of August, one thousand nine hundred eighty-four, and ending on the thirty-first day of January, one thousand nine hundred eighty-nine, unless authorized to do so by enactment of a separate and specific statute.

(c) This section shall not apply to any attempt by the board, the state or any other state officer or agency to recover moneys due for any other reason."

WEST VIRGINIA STATE BOARD OF INVESTMENTS

BOARD MEMBERS AND SENIOR STAFF

DECEMBER 31, 1991

Board Members

W. Gaston Caperton III
Governor
Charleston Chairman

Larrie Bailey
State Treasurer
Charleston Member

Glen B. Gainer, Jr.
State Auditor
Charleston Member

John Poffenbarger
Executive Secretary
Charleston Member

William T. Tracy
Huntington Member

Dwight Keating
Clarksburg Member

Richard K. Riederer
Weirton Member

Senior Staff

H. Craig Slaughter Executive Director

D. Jerry Simpson Chief Operating Officer

Matthew E. Jones Chief Financial Officer

Robert R. Jones Chief Investment Officer

Mark E. N. Asaad Chief Counsel

WEST VIRGINIA STATE BOARD OF INVESTMENTS

GENERAL REMARKS

Background

The permissible investments which can be made by the Board are set forth in the West Virginia Code, Chapter 12, Article 6, Section 9, as follows:

"§ 12-6-9. Permissible investments.

Notwithstanding the restrictions which may otherwise be provided by law as to the investment of funds, the board may invest funds made available to it in any of the following:

(a) Any direct obligation of, or obligation guaranteed as to the payment of both principal and interest by, the United States of America;

(b) Any evidence of indebtedness issued by any United States government agency guaranteed as to the payment of both principal and interest, directly or indirectly, by the United States of America including, but not limited to, the following: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Export-Import Bank, Federal Financing Bank, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association and Federal Farm Credit Banks;

(c) Any evidence of indebtedness issued by the Federal National Mortgage Association to the extent such indebtedness is guaranteed by the Government National Mortgage Association;

(d) Any evidence of indebtedness that is secured by a first lien deed of trust or mortgage upon real property situate within this state, if the payment thereof is substantially insured or guaranteed by the United States of America or any agency thereof;

(e) Direct and general obligations of this state;

(f) Any undivided interest in a trust, the corpus of which is restricted to mortgages on real property and, unless all of such property is situate within the state and insured, such trust at the time of the acquisition of such undivided interest, is rated in one of the three highest rating grades by an agency which is nationally known in the field of rating pooled mortgage trusts;

(g) Any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association organized and operating in the United States: Provided, That any such security is, at the time of its acquisition, rated in one of the three highest rating grades by an agency which is nationally known in the field of rating corporate securities: Provided, however, That if any commercial paper and/or any such security will mature within one year from the date of its issuance, it shall, at the time of its acquisition, be rated in one of the two highest rating grades by such an agency: Provided further, That any such security not rated in one of the two highest rating grades by any such agency and commercial paper or other evidence of indebtedness of any private corporation or association shall be purchased only upon the written recommendation from an investment adviser that has over three hundred million dollars in other funds under its management;

(h) Negotiable certificates of deposit issued by any bank, trust company, national banking association or savings institution organized and operating in the United States, which mature in less than one year and are fully collateralized;

(i) Interest earning deposits including certificates of deposit, with any duly designated state depository, which deposits are fully secured by a collaterally secured bond as provided in section four [§ 12-1-4], article one of this chapter; and

(j) Any corporate stock of any private corporation or association organized and operating in the United States and which is also listed on the Standard and Poor's List of 500.

Additional permissible investments have been authorized by Chapter 12, Article 6, Section 9C of the West Virginia Code, as amended, which states as follows:

"Notwithstanding the restrictions which may otherwise be provided by law with respect to the investment of funds, the state board of investments, all administrators, custodians or trustees of pension funds, each political subdivision of this state and each county board of education is authorized to invest funds in the securities of or any other interest in any investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. § 80a, the portfolio of which is limited to direct obligations of or obligations guaranteed as to the payment of both principal and interest by the United States of America and to repurchase agreements fully collateralized by United States government obligations: Provided, That the investment company or investment trust takes delivery of the collateral either directly or through an authorized custodian."

Certain restrictions which apply to the investments in the Consolidated Fund and Consolidated Pension Fund are set forth in Chapter 12, Article 6, Section 10 of the West Virginia Code, as amended, which states in part,

- ". . . (1) At no time shall more than seventy-five percent of the portfolio of either fund be invested in securities described in subdivision (g) of said section nine;
 (2) At no time shall more than twenty percent of the portfolio of either fund be invested in securities described in said subdivision (g) which mature within one year from the date of issuance thereof;
 (3) At no time shall more than three percent of the portfolio of either fund be invested in securities issued by a single private corporation or association;
 (4) At no time shall more than twenty percent of the portfolio of the consolidated pension fund be invested in securities described in subdivision (j) of section nine [§12-6-9(j)] of this article; and
 (5) At no time may any of the consolidated fund be invested in securities described in subdivision (j) of section nine of this article. . . ."

Pursuant to authorization given by House Bill Number 1321, effective July 1, 1978, Administrative Rules and Regulations filed with the Secretary of State on October 13, 1978, and portfolio policy guidelines adopted by the Board of Investments, the State Treasurer's Office completed the conversion of State agency short-term investments to the Consolidated Fund (Short-Term Pools) on October 15, 1978 and all State retirement system funds to the Consolidated Pension Fund (Long-Term Pool) on March 17, 1979.

The Consolidated Pension Fund was composed of seven accounts during 1991 as listed below:

<u>Fund</u>	<u>Account Number</u>	<u>State Street Bank No.</u>
Judges' Retirement System	7615-06	V301
Public Safety Retirement System	7620-07	V302
Workers' Compensation Fund	7625-08	V303
Workers' Compensation Fund II	7626 (Internal Use Only)	V304
Pneumoconiosis Fund	7630-09	V305
Public Employees' Retirement System	7635-10	V306
Teachers' Retirement System	7640-11	V307

The Consolidated Fund was composed of 29 "pools" during 1991 which are identified below. Pool 100 contains investments from agencies which are unrestricted by type, i.e., not restricted by instrument. Pool 101 contains investments made from monies held in trust for State agencies. Pool 102 contains investments made from funds held in trust for local governmental units. Pool 140 contains investments from agencies which may only be government instruments. The remaining 25 pools contain specific investments for individual agencies due to constitutional or bonding restrictions prohibiting commingling with Pools 100 and 140.

1. Cash Liquidity Fund - (Pool No. 100) - State Street Bank No. V329

This Pool consists of the operating funds of State agencies.

2. State Agency Trust Fund - (Pool No. 101) - State Street Bank No. V331

Money held in trust by State agencies including such money as Performance Bonds and State Hospital Patient Funds. The Fund is to be run as a money type fund with a weighted average maturity of no more than 59 days. The account was created November 1, 1989.

3. Local Government Fund - (Pool No. 102) - State Street Bank No. V332

This pool contains only money deposited by local governments. The Fund is to be run as a money market type fund with a weighted average maturity of no more than 59 days. The account was created November 1, 1989.

4. Construction Trust Fund - Huntington Toll Bridge - (Pool No. 120)
State Street Bank No. V321

This Construction Trust Fund is restricted to investments made solely on the behalf of the Huntington Toll Bridge and may only be invested in U.S. Treasury obligations.

5. The School Fund - (Pool No. 130) - State Street Bank No. 322

The School Fund is not an investment Pool within the Consolidated Fund. The Office of the Treasurer of State serves as the staff agency for the "Board of the School Fund". The Fund is restricted to investments in securities of the United States Government or of the State of West Virginia.

6. Restricted Fund - (Pool No. 140) - State Street Bank No. V330

This Pool is limited to investments made in securities offered by U.S. Treasury, U.S. Government Agencies, or investments collateralized by U.S. Treasury securities.

7. Loss Amortization - (Pool No. 141) - State Street Bank No. V333

This pool contains zero coupon bonds bought to amortize the losses in Pool 100 and 140. At the maturity date of the bonds, the funds will be transferred to Pools 100 and 140.

8. Municipal Bond Commission - County Revenue - (Pool No. 152) - State
Street Bank No. V341

This Municipal Bond Commission Account is for the investment of county revenues. No purchases or sales of investments may occur without the authorization of the Municipal Bond Commission.

9. Municipal Bond Commission - General Obligation - (Pool No. 156) - State
Street Bank No. V342

This Municipal Bond Commission Account is for the defeasance of general obligations of municipalities, only U.S. Treasury Securities may be purchased.

10. Municipal Bond Commission - WVU Project 11 Escrow - (Pool No. 160)
State Street Bank No. V336

This Escrow Account is for West Virginia University's Project 11. No purchases or sales of investments may occur without the authorization of the Municipal Bond Commission.

11. Municipal Bond Commission - County Schools - (Pool No. 162) - State
Street Bank No. V337

This Pool is for the investment of funds held by county schools systems. No purchases or sales of investments may occur in Pool No. 162 without Municipal Bond Commission authorization.

12. Municipal Bond Commission - Public Service Districts - (Pool No. 164)
State Street Bank No. V338

This Pool is for the investment of Public Service District Funds. No purchases or sales of investments may occur in Pool No. 164 without Municipal Bond Commission authorization.

13. Municipal Bond Commission - (Pool No. 166) - State Street Bank No. V339

No purchases or sales of investments may occur in Pool No. 166 without Municipal Bond Commission authorization.

14. Municipal Bond Commission - Huntington Bridge 65 Revenue - (Pool No. 400)
State Street Bank No. V335

This account was created December 29, 1988 to hold escrowed investments for the Municipal Bond Commission. This account is for the Huntington Toll Bridge obligation. No purchases or sales of investments may occur in Pool No. 400 without Municipal Bond Commission authorization. This account replaces Pool No. 150.

15. Municipal Bond Commission - Combined Revenue Account - (Pool No. 401)
State Street Bank No. V343

This account was created December 29, 1988 to hold escrowed investments for the Municipal Bond Commission. This account is for the investment of State Building Commission Funds. No purchases or sales of Investments may occur in Pool No. 401 without Municipal Bond Commission authorization. This account replaces Pool No. 170.

16. Municipal Bond Commission - Hancock County Schools 83G/0 - (Pool No. 402)
State Street Bank No. V344

This account was created December 29, 1988 to hold escrowed investments for the Municipal Bond Commission. This newly created account contains investments originally held in Pool No. 162. These investments are escrowed for the retirement of Hancock County Schools general obligation bonds. No purchases or sales of investments may occur in Pool No. 402 without Municipal Bond Commission authorization.

17. Municipal Bond Commission - Fairmont 85 Sewer Revenue - (Pool No. 403)
State Street Bank No. V345

This account was created December 29, 1988 to hold escrowed investments for the Municipal Bond Commission. This account contains investments originally held in Pool No. 166. These investments are escrowed for the retirement of Fairmont Sewer Revenue Bonds. No purchases or sales of investments may occur in Pool No. 403 without Municipal Bond Commission authorization.

18. Municipal Bond Commission - Fairmont 85 Water Revenue Esc - (Pool No. 404)
State Street Bank No. V334

This account was created December 29, 1988 to hold escrowed investments for the Municipal Bond Commission. This account contains investments originally held in Pool No. 166. These investments are escrowed for the retirement of Fairmont Water Revenue Bonds. No purchases or sales of investments may occur in Pool No. 404 without Municipal Bond Commission authorization.

19. Municipal Bond Commission - Escrow Agent For Board of Regents
(Pool No. 406) - State Street Bank No. V346

This account was created January 26, 1989 to hold escrowed investments for the Municipal Bond Commission. No purchases or sales of investments may occur in Pool No. 406 without Municipal Bond Commission authorization.

20. Workers' Compensation Fund Housing Development Loan Fund - (Pool No. 4900)

Pool No. 4900 was established by statute (Chapter 31, Article 18B, Section 2, West Virginia Code, June 11, 1982) to track the Workers' Compensation Fund Loan to the Housing Development Fund. Pool No. 4900 was closed on July 1, 1991 and all loans were transferred to Workers' Compensation Fund, Account No. 7625-08.

21. Workers' Compensation Fund - Economic Development Authority Loan
(Pool No. 5100)

Pool No. 5100 was established by statute (Chapter 31, Article 18B, Section 2, West Virginia Code, June 11, 1982) to track the Workers' Compensation Fund Loan to the West Virginia Economic Development Authority. Pool No. 5100 was closed on July 1, 1991 and all loans were transferred to Workers' Compensation Fund, Account No. 7625-08.

22. Department of Highways - (Pool No. 6840)

This Pool consists of proceeds from Special Highway Obligation Notes. The proceeds have arbitrage restrictions and can only be used to buy SLUGS through the Federal Reserve. Pool No. 6840 was closed in June 1991.

23. Bank Services Fund - (Pool No. 8002) - State Street Bank No. V327

The interest earned in this account is used to pay all banking charges.

24. Lottery Defeasance - (Pool No. 8013) - State Street Bank No. V323

This Pool was established October 1987. This Pool is used to annuitize the lottery winners by buying U.S. Treasury Zero Coupon Bonds.

25. Higher Education Central Office - (Pool No. 8845) - State Street Bank No. V325

Opened January 25, 1989 for the proceeds from Registration Fee Revenue Bond. A Flex Repo with a fixed-rate and a five-year maturity was bought. Interest compounds monthly on these investments and withdrawals are made by letter from the Higher Education Central Office.

26. Department of Transportation Special Highway Fund - (Pool No. 9312) State Street Bank No. V348

The proceeds from the bond issue are invested in repurchase agreements.

27. Department of Transportation Zero Coupon - (Pool No. 9313) - State Street Bank No. V349

The funds represent the investments of the special highway fund set up by Chapter 17, Article 16A, Section 23 of the West Virginia Code.

28. DOH - Parkway Authority - (Pool No. 9314) - State Street Bank No. V351

The funds represent investments made from funds transferred to the Division of Highways as allowed by Chapter 17, Article 16A, Section 22 of the West Virginia Code.

29. School Building Authority - (Pool No. 9800) - State Street Bank No. V326

This single agency pool was set up in February 1990 to invest the proceeds from the School Building Authority Capitol Improvement Revenue Bonds. The money is held in this account until the funds are allocated to the county school systems.

INVESTMENT POLICY

The investment policies of the West Virginia State Board of Investments are set forth in the operating rules and regulations of the Consolidated Fund and Consolidated Pension Fund. The text of the rules and regulations governing investment policies, objectives and restrictions are set forth below:

CONSOLIDATED FUND

"Section 5. Investment of Consolidated Fund

5.01. General Investment Policies, Objectives and Restrictions - All investment pools in the Consolidated Fund shall be individually subject to the policies, objectives and restrictions set forth herein.

(a) Purpose - The Board's purpose is to invest and protect the assets of the Consolidated Fund for the benefit of the citizens of the State of West Virginia.

(b) Standard of Care - All investments are to be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which people of experience, prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(c) Permissible Investments - The Consolidated Fund shall comply with West Virginia Code §12-6-9, as amended, and these rules and regulations, with regard to permissible investments.

(d) Social Responsibility - To the extent that investments are consistent with all other standards established by the Board, selection of investments should consider the best interests of the people of the State of West Virginia.

(e) Custody - The Board shall designate and maintain custodial arrangements in its sole discretion. However, no investment advisor shall maintain custody of the securities of the Consolidated Fund.

(f) Investment Advisors - The Board may select and maintain investment advisors who shall act in accordance with the terms and conditions specified by the Board and the applicable requirements of State and Federal Law.

(g) Investment Objectives - All pools within the Consolidated Fund, except the single-purpose pools described in section 5.02(e) below, will be subject to the investment objectives listed below in descending order of priority:

(1) Preservation of Capital - To preserve the capital investment in the Consolidated Fund.

(2) Liquidity - To maintain sufficient liquidity to provide for all anticipated withdrawals or transfers and to invest in securities with sufficient marketability to provide for unexpected withdrawals.

(3) Diversification - To diversify the investment of the assets of the Consolidated Fund so as to minimize the risk of large losses.

(4) Turnover - To minimize transaction costs.

(5) Stability - To maintain a high level of security in the Consolidated Fund by minimizing risk and volatility insofar as possible.

(6) Rate of Return - To achieve a rate of return consistent with the rate of return objectives set by the Board.

(h) Investment Restrictions

(1) The Consolidated Fund shall abide by the investment restrictions of West Virginia Code §12-6-10 and as further set forth by the Board.

(2) Not more than 20% of the portfolio of the Consolidated Fund may be invested in any single industry sector. (The utility sector shall be subdivided for the purpose of this restriction between telephone, electric, gas distribution, and similar utility industry segments.)

(3) Not more than 3% of the portfolio of the Consolidated Fund may be invested in the securities issued by a single, private corporation or association.

(4) The Consolidated Fund shall maintain a reasonable balance between the various classes of fixed income securities, without over concentration.

(5) The Consolidated Fund shall abide by the quality restrictions of West Virginia Code §12-6-9.

(6) Investment in financial futures contracts, options and other similar investments is prohibited.

(7) Minimum Amount of Investment - The minimum amount for investment in the Consolidated Fund is One Hundred Dollars (\$100.00). There is no minimum time for which deposits will be retained."

CONSOLIDATED PENSION FUND

"Section 5. Investment of Consolidated Pension Fund

5.01. General Investment Policies, Objectives and Restrictions - All investment pools in the Consolidated Pension Fund shall be individually subject to the policies, objectives and restrictions set forth herein.

(a) Purpose - the Board's purpose is to invest and protect the assets of the Consolidated Pension Fund for the benefit of the citizens of the State of West Virginia.

(b) Standard of Care - All investments are to be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which people of experience, prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(c) Permissible Investments - The Consolidated Pension Fund shall abide by West Virginia Code §12-6-9, as amended, and these rules and regulations with regard to permissible investments.

(d) Social Responsibility - To the extent that investments are consistent with all other standards established by the Board, selection of investments should consider the best interests of the people of the State of West Virginia.

(e) Custody - The Board shall designate and maintain custodian arrangements in its sole discretion and no investment advisor shall maintain custody of the securities of the Consolidated Pension Fund.

(f) Investment Advisors - The Board may select and maintain investment advisors who shall act in accordance with the terms and conditions specified by the Board and the applicable State and Federal laws.

(g) Investment Objectives - All pools within the Consolidated Pension Fund shall be subject to the investment objectives listed below in descending order of priority:

(1) Preservation of Capital - To preserve the capital investment in the Consolidated Pension Fund.

(2) Diversification - To diversify the investment of the assets of the Consolidated Pension Fund so as to minimize the risk of large losses.

(3) Rate of Return - To achieve a rate of return consistent with the rate of return objectives set by the Board.

(4) Stability - To maintain a high level of security in the Consolidated Pension Fund by minimizing risk and volatility insofar as possible within the rate of return objectives set by the Board.

(5) Turnover - To minimize transaction costs.

(6) Liquidity - To maintain sufficient liquidity to provide for all anticipated withdrawals or transfers and to invest in securities with sufficient marketability to provide for unexpected withdrawals.

(h) Investment Restrictions

(1) The Consolidated Pension Fund shall abide by the investment restrictions of West Virginia Code §12-6-10 and as further set forth by the Board.

(2) Not more than 20% of the portfolio of the Consolidated Pension Fund may be invested in any single industry sector. (The utility industry shall be separated for the purpose of this restriction between telephone, electric, gas distribution, and similar segments.)

(3) Not more than 3% of the portfolio of the Consolidated Pension Fund may be invested in the securities issued by a single, private corporation or association.

(4) The Consolidated Pension Fund shall maintain a reasonable balance between the various classes of fixed income securities, without over concentration.

(5) The Consolidated Fund shall abide by the quality restrictions of West Virginia Code §12-6-9.

(6) Investment in financial futures contracts, options and other similar instruments shall be authorized for the sole purpose of performing hedges in order to reduce the risk associated with fluctuations in interest rates or market prices. Such investments shall be limited to direct obligations of, or obligations guaranteed as to the payment of both principal and interest by, the United States of America; namely, Treasury bills, notes, bonds and

GNMAs. For purposes of these rules and regulations, the word "hedge" means taking a position in the futures market which is opposite and approximately equal to the one held in the cash market. This is a defensive strategy and shall only be used to protect the overall values of the various portfolios. Advance unanimous approval of the Board must be obtained prior to each transaction in instruments of this type."

In addition, the Board established rate of return objectives for the Consolidated Fund and Consolidated Pension Fund at the November 16, 1990 meeting of the State Board of Investments. The rate of return objectives are as follows:

CONSOLIDATED FUND

- (a) The Consolidated Fund shall seek a total investment return which should exceed the inflation rate, using the GNP deflator, measured over a one to three month period.
- (b) The Consolidated Fund shall seek a total investment return which should exceed the corresponding index assigned to each pool within the Consolidated Fund, measured over a one to three month period.
- (c) The Consolidated Fund shall seek a total investment performance which would place it in the top 1/3 of comparable funds, measured over a one to three month period.

CONSOLIDATED PENSION FUND

- (a) The Consolidated Pension Fund shall seek a total investment return which should exceed the inflation rate by at least three percentage points, using the GNP deflator, measured over a one to three year period.
- (b) The Consolidated Pension Fund shall seek a total investment return which should exceed Salomon Brothers Broad Grade Index, measured over a one to three year period.
- (c) The Consolidated Pension Fund shall seek a total investment performance which would place it in the top 1/3 of comparable funds, measured over a one to three year period.

Other Policy Guidelines

In addition, at the regular meeting of the West Virginia State Board of Investments on May 14, 1986, new policy guidelines were adopted concerning the divestiture of investments from companies and/or financial institutions doing

business with the Republic of South Africa or Namibia. The proposal was introduced by the Treasurer and seconded by the Auditor. The proposal was approved unanimously. The proposal, as adopted, contains these new guidelines:

"Whereas, the policy of Apartheid as maintained by the present government of the Republic of South Africa is not only morally repugnant to all who believe in the inherent rights of individual freedom and equal treatment under the law and has resulted in the systematic enslavement and subjugation of the nonwhite majority of South Africa and Namibia but casts doubt on the safety and stability of investment in companies doing business with, operating in, or making loans to the Republic of South Africa or Namibia;

Now, Therefore, Be It Resolved That:

1. No monies under the control of the West Virginia Board of Investments shall remain invested in or hereinafter be invested in the securities or other obligations of any company doing business directly in or with the Republic of South Africa or of Namibia.
2. No monies under the control of the West Virginia Board of Investments shall be deposited in any bank or financial institution which makes loans directly to the Republic of South Africa or Namibia or a governmental enterprise thereof.
3. It is the expressed goal of the West Virginia Board of Investments that the divestiture required by Section 1 be completed within three years of approval of this resolution so that no less than one-third the value of said investments be sold in any one year. However, consistent with the Board's fiduciary responsibilities and fiscal prudence, the three-year time period may be extended to complete the divestiture program so as to minimize financial market disturbances and to avoid absorbing any realized capital (market) losses within the portfolio.

NOTE: This policy shall be in effect so long as apartheid remains the official policy of the government of South Africa."

The abovementioned sanctions against the Republic of Namibia were removed by a unanimous vote of the membership of the West Virginia State Board of Investments during the regular meeting held on April 5, 1991. The removal of the sanctions was based on a request for such removal by the United States Department of State. However, the restrictions remain in place as of Decomeber 31, 1991 with respect to the Republic of South Africa.

Management of the Funds

The activities of the pension funds were administered by the following advisors during calendar year 1991:

Judges' Retirement System:
Kemper Asset Management Company

Public Safety Retirement System:
Kemper Asset Management Company

Workers' Compensation Fund:
Investment Advisors, Inc.

Workers' Compensation Fund II:
Duff and Phelps Investment Management Company

Pnuemoconiosis Fund:
Duff and Phelps Investment Management Company

Public Employees' Retirement System:
Investment Advisors, Inc.

Teachers' Retirement System:
Duff and Phelps Investment Management Company

Also, the activities of the account "pools" in the Consolidated Fund were administered by the following advisors during calendar year 1991:

Cash Liquidity Fund - (Pool No. 100) - State Street Bank No. V329:
Charleston National Bank
United National Bank

State Agency Trust Fund - (Pool No. 101) - State Street Bank No. V331:
National Bank of Commerce

Local Government Fund - (Pool No. 102) - State Street Bank No. V332:
T. Rowe Price Associates, Inc.

Restricted Fund - (Pool No. 140) - State Street Bank No. V330:
Brinson Partners, Inc.

Bank Services Fund - (Pool No. 8002) - State Street Bank No. V327:
Butcher and Singer, Incorporated (01/01/91 - 09/30/91)
West Virginia State Board of Investments (10/01/91 - 12/31/91)

In regard to the Cash Liquidity Fund, no advisory fees were paid in 1991 because the advisor's compensation is based on the dollar amount of "manageable" assets as determined by the staff of the State Board of Investments. It was the

determination of the Board's staff that all investments held in the pool during calendar year 1991 were illiquid.

During calendar year 1991, all other account "pools" in the Consolidated Fund commonly referred to as "single account pools" were administered by the staff of the State Board of Investments. However, the activities of these accounts were directed by the management of the individual agencies. Butcher and Singer, Incorporated withdrew as advisor to the Bank Services Fund effective September 30, 1991. At the direction of the Board as set out in the Board meeting held on October 29, 1991, the Investments staff administered the Bank Services Fund for the remainder of 1991.

CONSOLIDATED FUND

Our prior audit report of the West Virginia State Board of Investments for calendar year 1989 disclosed a corrective action plan set forth by the Board to fund the deficit in Pool 100 - Cash Liquidity Pool and Pool 140 - Restricted Fund. The implementation of this plan has been ongoing since January 1989. A history of the Board's actions in eliminating the deficit in the Consolidated Fund is provided on the following pages of this report as well as our comments regarding other aspects of the Board's operations.

Fund Deficit

For purposes of determining the deficit, within the Consolidated Fund, the Consolidated Fund's assets were \$231,369,625.24 less than the liabilities on January 31, 1989. At the Board meeting on April 26, 1989, the Board approved a plan whereby Pool 110 - Workers' Compensation Fund Operating Account and Pool 3300 - Retirement System Operating Account would be closed on July 1, 1989 and the applicable deficits would accrue to the individual pension and trust funds, in effect an immediate recognition of the deficits incurred by the pension and trust funds. The pools closed on July 1, 1989 and the deficits were credited as

follows: Judges' Retirement System - \$39,541.82; Public Safety Retirement System - \$1,562,781.78; Workers' Compensation Fund - \$3,164,597.31; Pneumoconiosis Fund - \$24,853,333.90; Public Employees' Retirement System - \$11,007,338.92; and Teachers' Retirement Board - \$329,415.97 resulting in the recognition of deficits totaling \$40,957,009.70. As a result, the deficit in the Consolidated Fund was reduced to \$190,412,615.54.

At the April 26, 1989 meeting, the Board also voted to close Pool 105 - Local Housing Development Pool, Pool 115 - Local Government Pension Pool and Pool 145 - National Credit Union Administration and consolidate the deficits in these pools with the deficit in Pool 100 - Cash Liquidity Fund. After this action was taken, the Consolidated Fund deficit consisted of Pool 100 - Cash Liquidity Fund, \$163,847,548.40 and Pool 140 - Restricted Fund, \$26,565,067.14 for a total of \$190,412,615.54. An adjustment was made during 1990 which reduced this amount to \$189,976,623.70.

After an intensive review of available options to remove the deficit in the Consolidated Fund, the State Board of Investments approved a plan at the October 26, 1989 meeting calling for the utilization of zero coupon bonds. Under the board's plan, the maturity value of the discounted bonds would be sufficient to fund the deficit. At a Board meeting held on August 16, 1990, the Board approved a plan whereby the deficit related to Pool 100 - Cash Liquidity Fund and Pool 140 - Restricted Fund would be combined and accounted for in Pool 141 - Loss Amortization. As of December 31, 1991, stripped securities whose book value is \$38,716,668.35 with a maturity value of \$183,415,000.00, as described in Note 5 of the notes accompanying the balance sheet of the West Virginia State Board of Investments were being held in Pool 141 - Loss Amortization. These stripped securities mature at various times between February 15, 2005 and October 15, 2019 and the proceeds will be sufficient to fully fund the deficits.

Investment of Special Revenue Funds

Chapter 12, Article 6, Section 8(c) of the West Virginia Code, as amended, dealing with the State Board of Investments states,

"(c) Each board, commission, department, official or agency charged with the administration of state funds is hereby authorized to make moneys available to the board for investment. State funds received by the board shall be deposited in the state account. . . ."

On or about November 1, 1989, the State Treasurer's Office which acted at that time in the capacity of staff agency for the State Board of Investments began allowing only specific agencies to invest special revenue funds. Only agencies having specific Code authority allowing the agency to invest special revenue collections were allowed to remain in the Cash Liquidity Fund - Pool No. 100. Any agency lacking specific legislative authorization to invest monies was required to transfer invested funds back into the special revenue account on the books of the State Treasury commonly referred to as the "cash account".

Since the practice of the State of West Virginia is to fully invest all available cash balances, the effect of this policy change was to allow interest earnings on these special revenue funds to accrue to the General Revenue Fund of West Virginia. While it is not possible to determine the amount of interest earnings on special revenue monies which accrued to the General Revenue Fund as a result of this policy, the following schedule for calendar years 1989-1991 shows the amount of interest apportioned to the General Revenue Fund as a part of the Cash Liquidity Fund - Pool No. 100, the total amount of the interest apportioned

in the Cash Liquidity Fund - Pool No. 100 and the proportional share of interest credited to the General Revenue Fund as a part of the total interest apportioned:

<u>Calendar Year</u>	<u>(a) Apportioned Interest General Revenue</u>	<u>(b) Total Apportioned Interest</u>	<u>Percentage (a÷b)</u>
1989	\$ 6,769,390.16	\$ 9,378,320.33	72.18%
1990	13,523,917.89	16,743,780.93	80.77%
1991	<u>10,591,076.15</u>	<u>12,948,822.34</u>	81.79%
	<u>\$30,884,384.20</u>	<u>\$39,070,923.60</u>	

As can be seen in the schedule, the propotional share of interest credited to the General Revenue Fund has increased each year. While a number of factors can influence the proportional share, it is very likely that the policy change has been a significant contributing factor in increasing the proportional share of interest credited to the General Revenue Fund of West Virginia.

We believe the provisions contained in Chapter 12, Article 6, Section 8(c) of the West Virginia Code, as amended, authorize special revenue funds to be invested at the discretion of the entity administering those funds. Accordingly, we believe the State Board of Investments should review the current policy of refusing to invest certain special revenue funds which could be in noncompliance with the abovementioned provisions of the West Virginia Code.

Bidding Procedures - Repurchase Agreements

Our examination of investment transactions showed several instances where bids were changed regarding repurchase agreements. However, all available documentation indicated the bids which were ultimately accepted offered the highest rate of return on the State's investment. We were concerned about the bidding procedures and discussed our concerns with the Board's Chief Investment

Officer and the Director of Investments and requested written procedures for bidding repurchase agreements. The procedures received by us state in part,

"All firms with which we do repurchase agreement business with must be approved by the Board of Investments and sign a repurchase agreement. . . .

Before any repurchase agreements are entered into, the total amount of money to be invested that day for both the operating and pension fund is calculated. This total is an estimate which will not be finalized until 12:00. The estimate is to be within a range of plus or minus five million dollars. The firms that are interested in doing repo business with the state on any given day will call in with a rate by 9:05am. If there are not enough firms bidding on this repo business the staff will ask for rates from other firms. Typically there are four to six bids daily. The staff then evaluates the information and decides on a distribution to the broker(s) showing the highest rates using both our internal limits and the limits the broker can do on that particular day. If a broker(s) having money from the previous day shows a lower competitive bid, and is thus going to lose the money, they are given one chance to raise their bid. The staff does not inform them of how much the rate must be adjusted to keep the money. Since we are working with a constantly changing market sometimes the broker(s) will change their rate or the amount that they can buy and the process of deciding the distribution may begin again before it is finalized at noon. . . ."

We were unable to locate any formally adopted bidding procedures for repurchase agreements which had been approved by the State Board of Investments. The Investments staff indicated to us they believed the current procedures increase investment income, reduce wire transfer fees and reduce the likelihood of the failure of a wire transfer.

However, we believe it might be possible for bidders to discount their bids once they are aware that they could raise their bid at a later time. One of the primary objectives of competitive bidding is to ensure that the best bid is received because bidders know they will have only one opportunity to obtain the business.

We believe the State Board of Investments should consider adopting formal bidding procedures for repurchase agreements. Also, we believe the Board should review the current bidding procedures for repurchase agreements to ensure the procedures are accomplishing the competitive bidding objectives of the Board.

EVALUATION OF THE CONSOLIDATED PENSION FUND

We obtained copies of the rating service's evaluation of the Consolidated Pension Funds' performance for the quarters ended December 31, 1990, March 31, 1991, June 30, 1991 and September 30, 1991 as prepared by SEI Funds Evaluation, Inc. The rating service's evaluation of the quarter ended December 31, 1991 was not yet available at the conclusion of our current fieldwork (January 31, 1992). We reviewed the rating services' reports and noted the following observations:

<u>Fund</u>	<u>Time-Weighted Rate of Return for Quarter Ended</u>			
	<u>09/30/91</u>	<u>06/30/91</u>	<u>03/31/91</u>	<u>12/31/90</u>
Judges'	6.3%	1.5%	2.4%	5.3%
Public Safety	5.6%	1.7%	3.7%	4.9%
Workers' Compensation	6.4%	1.2%	2.5%	7.0%
Workers' Compensation II	5.5%	2.0%	3.0%	N.A.
Pneumoconiosis	5.4%	1.1%	4.2%	7.7%
Public Employees'	7.0%	0.8%	2.4%	7.2%
Teachers'	6.2%	1.3%	2.5%	5.3%

The asset allocation was ranked against SEI's Bond Fund Universe. The results reported by the rating service concerning asset allocation for the quarters ended December 31, 1990, March 31, 1991, June 30, 1991 and September 30, 1991 were as follows:

<u>Fund</u>	<u>Quarter Ended</u>			<u>12/31/90</u>
	<u>09/30/91</u>	<u>06/30/91</u>	<u>03/31/91</u>	
Judges':				
Bonds	95.1%	99.7%	90.5%	96.5%
Cash Equivalents and Cash	4.9%	0.3%	9.5%	3.3%
Public Safety:				
Bonds	95.6%	99.0%	99.2%	96.5%
Cash Equivalents and Cash	4.4%	1.0%	0.8%	3.4%
Workers' Compensation:				
Bonds	90.6%	98.3%	94.9%	95.3%
Cash Equivalents and Cash	2.7%	0.4%	3.8%	3.3%
Private Placements	6.7%	1.2%	1.3%	1.4%
Workers' Compensation II:				
Bonds	93.2%	90.5%	95.4%	91.8%
Cash Equivalents and Cash	6.8%	9.5%	4.7%	6.8%
Private Placements	0.0%	0.0%	0.0%	1.4%
Pneumoconiosis:				
Bonds	89.2%	86.8%	88.1%	83.9%
Cash Equivalents and Cash	3.5%	5.5%	4.1%	7.9%
Private Placements	7.2%	7.7%	7.8%	8.2%
Public Employees:				
Bonds	96.2%	98.3%	97.2%	95.6%
Cash Equivalents and Cash	2.3%	0.3%	1.2%	1.7%
Private Placements	1.5%	1.4%	1.5%	2.6%
Teachers':				
Bonds	93.3%	88.1%	94.4%	96.1%
Cash Equivalents and Cash	6.7%	11.9%	5.6%	3.8%

Relative conditions in the financial markets are subject to change within the year. As a result, certain aspects of portfolio diversification while aiding overall performance of the fund in one quarter of the year may be detrimental to performance in another quarter of the year. The performance ranking of the trust funds by the rating service is based on a scale of one to 100. The performance ranking is based on comparison with the rate of return achieved by similar funds. The low numbers indicate optimal performance while

the high numbers indicate relatively poor performance. The rankings of the performance of the trust funds were as follows:

<u>Fund</u>	<u>Performance Ranking for Quarter Ended</u>			
	<u>09/30/91</u>	<u>06/30/91</u>	<u>03/31/91</u>	<u>12/31/90</u>
Judges'	29	75	54	39
Public Safety	55	58	3	54
Workers' Compensation	27	89	38	6
Workers' Compensation II	60	25	17	N.A.
Pnuemoniosis	65	90	1	4
Public Employees'	17	94	54	5
Teachers'	32	84	44	36

INVESTMENT ACTIVITIES

The following schedule is a comparative analysis of the activities of the State long-term trust funds for calendar years 1991 and 1990:

	<u>Judges'</u>	<u>Public Safety</u>
Sales 1991:		
Number	8	6
Average Years Held	2.38	1.71
Average Years to Maturity from Sale Date	11.07	13.57
Average Approximate Yield to Maturity	1.320%	8.500%
Par Value	\$2,700,000	\$ 6,925,000
Book Value	\$2,662,579	\$ 6,803,390
Sale Proceeds	\$2,673,415	\$ 6,790,397
Net Gain (Loss)	\$ 10,836	(\$ 12,993)
Interest Earnings	\$ 748,113	\$ 937,702
Total Earned	\$ 758,949	\$ 924,709
Sales 1990:		
Number	11	13
Average Years Held	2.37	2.10
Average Years to Maturity from Sale Date	4.00	4.27
Average Approximate Yield to Maturity	8.512%	8.508%
Par Value	\$5,020,000	\$12,085,000
Book Value	\$5,054,888	\$12,088,190
Sale Proceeds	\$5,061,624	\$12,022,385
Net Gain (Loss)	\$ 6,736	(\$ 65,805)
Interest Earnings	\$ 79,550	\$ 233,202
Total Earned	\$ 86,286	\$ 167,397
Purchases 1991:		
Number	13	12
Average Years to Maturity	20.95	20.61
Approximate Yield at Maturity	8.700%	8.570%
Total:		
Par Value	\$4,121,345	\$12,381,730
Purchase Price	\$3,597,153	\$10,473,536
Purchases 1990:		
Number	13	11
Average Years to Maturity	11.16	9.79
Approximate Yield at Maturity	8.583%	8.476%
Total:		
Par Value	\$5,779,359	\$14,950,000
Purchase Price	\$5,611,489	\$14,453,828

<u>Workers'</u> <u>Compensation</u>	<u>Workers'</u> <u>Compensation II</u>	<u>Pneumoconiosis</u>	<u>Public</u> <u>Employees'</u>	<u>Teachers'</u>
12	0	0	9	5
2.64	0.00	0.00	1.91	4.74
10.23	0.00	0.00	13.86	0.64
7.633%	0.000%	0.000%	4.970%	7.064%
\$192,555,398	\$ -0-	\$ -0-	\$385,179,262	\$23,500,000
\$156,159,400	\$ -0-	\$ -0-	\$299,011,746	\$23,900,363
\$158,854,288	\$ -0-	\$ -0-	\$310,342,533	\$24,055,195
\$ 2,694,888	\$ -0-	\$ -0-	\$ 11,330,787	\$ 154,832
\$ 18,556,615	\$ -0-	\$ -0-	\$ 30,576,108	\$ 9,348,656
\$ 21,251,503	\$ -0-	\$ -0-	\$ 41,906,895	\$ 9,503,488
15	0	2	17	3
2.95	0.00	2.18	2.48	3.55
4.34	0.00	3.34	8.27	3.38
7.946%	0.000%	8.601%	8.542%	7.799%
\$ 98,000,000	\$ -0-	\$10,500,000	\$311,518,000	\$32,000,000
\$ 97,336,063	\$ -0-	\$ 9,961,875	\$190,134,000	\$32,558,125
\$ 96,302,563	\$ -0-	\$ 9,998,381	\$191,161,455	\$31,593,319
(\$ 1,033,500)	\$ -0-	\$ 36,506	\$ 1,027,455	(\$ 964,806)
\$ 1,705,770	\$ -0-	\$ 148,772	\$ 2,216,725	\$ 718,110
\$ 672,270	\$ -0-	\$ 185,278	\$ 3,244,180	(\$ 246,696)
7	2	5	12	6
8.82	9.37	9.92	7.93	25.63
7.690%	8.000%	7.861%	7.760%	8.737%
\$149,277,699	\$ 15,000,000	\$16,820,647	\$378,314,631	\$54,689,216
\$155,709,641	\$ 15,146,094	\$15,991,688	\$394,661,169	\$54,729,423
6	0	9	10	6
20.97	0.00	18.07	21.72	18.78
8.32%	0.000%	8.727%	8.545%	8.978%
\$ 90,000,000	\$ -0-	\$76,606,184	\$295,000,000	\$56,969,315
\$ 84,087,500	\$ -0-	\$75,859,763	\$272,183,203	\$54,903,505

Items of Note

The trust funds experienced net gains (losses) on sale of investments during 1991 as follows: Judges' \$10,836; Public Safety (\$12,993); Workers' Compensation \$2,694,888; Public Employees' \$11,330,787; and, Teachers' \$154,832. The total net gain on sale of investments for all funds in 1991 was \$14,178,350.00. We noted there were no sales in the Workers' Compensation II Fund and Pneumoconiosis Fund in 1991.

Also, the trust funds achieved interest earnings from investments sold during 1991 as follows: Judges' \$748,113; Public Safety \$937,702; Workers' Compensation \$18,556,615; Public Employees' \$30,576,108; and, Teachers' \$9,348,656. The total interest earnings from investments sold for all funds in 1991 was \$60,167,194.00.

The total earnings generated by the sale of investments is the sum of the net gain (loss) on sale of investments and interest earnings. The trust funds had total earnings from investments sold during 1991 as follows: Judges' \$758,949; Public Safety \$924,709; Workers' Compensation \$21,251,503; Public Employees' \$41,906,895; and, Teachers' \$9,503,488. The total earnings generated by the sale of investments for all funds in 1991 was \$74,345,544.00.

There were 40 investments sold during 1991 compared to 61 investments sold during 1990. The following is a comparative schedule of the number of investments sold during these years:

<u>Fund</u>	<u>1991</u>	<u>1990</u>	<u>Increase (Decrease)</u>
Judges'	8	11	(3)
Public Safety	6	13	(7)
Workers' Compensation	12	15	(3)
Workers' Compensation II	0	0	0
Pneumoconiosis	0	2	(2)
Public Employees'	9	17	(8)
Teachers'	<u>5</u>	<u>3</u>	<u>2</u>
	<u>40</u>	<u>61</u>	<u>(21)</u>

Overall, the sales activity decreased by 34% from 1990 sales.

There were 57 purchases in 1991 compared to 55 purchases in 1990. The total par value of 1991 purchases was \$630,605,268.00 while the total purchase price of 1991 purchases was \$650,308,704.00, resulting in a premium of \$19,703,436.00. The following is a comparative schedule of the number of investments purchased during these years:

<u>Fund</u>	<u>1991</u>	<u>1990</u>	<u>Increase (Decrease)</u>
Judges'	13	13	0
Public Safety	12	11	1
Workers' Compensation	7	6	1
Workers' Compensation II	2	0	2
Pneumoconiosis	5	9	(4)
Public Employees'	12	10	2
Teachers'	<u>6</u>	<u>6</u>	<u>0</u>
	<u>57</u>	<u>55</u>	<u>2</u>

Overall, the purchase activity increased by 4% from 1990 levels.

We noted the following changes in the amount of repurchase agreements on hand at December 31, 1991:

<u>Fund</u>	<u>1991</u>	<u>1990</u>	<u>(Over) Under 1990</u>
Judges'	\$ 462,028	\$ 446,953	\$ 15,075
Public Safety	1,425,354	1,731,996	(306,642)
Workers' Compensation	30,595,675	18,098,294	12,497,381
Workers' Compensation II	20,486,327	14,407,092	6,079,235
Pneumoconiosis	10,061,070	12,978,905	(2,917,835)
Public Employees'	95,477,828	22,164,071	73,313,757
Teachers'	<u>12,327,089</u>	<u>8,076,298</u>	<u>4,250,791</u>
	<u>\$170,835,371</u>	<u>\$77,903,609</u>	<u>\$92,931,762</u>

The amount of repurchase agreements increased by \$92,931,762 at December 31, 1991 over the amount invested on December 31, 1990.

INDEPENDENT AUDITORS' OPINION

Members of the West Virginia Legislature
State Capitol
Charleston, West Virginia

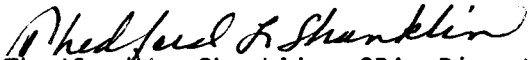
We have audited the accompanying balance sheet of the West Virginia State Board of Investments as of December 31, 1991. The financial statement is the responsibility of the management of the West Virginia State Board of Investments. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

Due to the report date set forth in Chapter 12, Article 6, Section 15 of the West Virginia Code, we were unable to perform several auditing procedures. In relation to the market value of investments disclosed in the accompanying footnotes, we have not tested the accuracy of the recorded amounts. An examination of security lending income was not performed in either the Consolidated Fund or Consolidated Pension Fund. An examination of interest and principal payments on sold or matured investments was not performed in either the Consolidated Fund or Consolidated Pension Fund for the period August 1, 1991 through December 31, 1991.

In our opinion, except for the effects of the matters discussed in paragraph three above, if any, as might have been determined if these additional auditing procedures had been performed, the balance sheet referred to in the first paragraph above presents fairly, in all material respects, the financial position of the West Virginia State Board of Investments as of December 31, 1991, in conformity with generally accepted accounting principles.

Respectfully submitted,


Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

January 31, 1992

Auditors: Michael E. Sizemore, CPA, Supervisor
Gary L. Williams
Paul E. Deuley

WEST VIRGINIA STATE BOARD OF INVESTMENTS

BALANCE SHEET

DECEMBER 31, 1991

	<u>CONSOLIDATED FUND</u>	<u>CONSOLIDATED PENSION FUND</u>	<u>COMBINED TOTALS (MEMORANDUM ONLY)</u>
Assets:			
Cash	\$ 130.56	\$ 48,306.87	\$ 48,437.43
Investments at Book Value			
Notes 3 and 4 (Par Value \$992,434,362.98 Consolidated Fund, \$2,888,638,058.61 - Consolidated Pension Fund)	808,597,020.98	2,738,262,342.79	3,546,859,363.77
Interest Receivable	7,294,908.57	45,753,810.45	53,048,719.02
Receivable for Matured Investments	<u>-0-</u>	<u>1,169,110.52</u>	<u>1,169,110.52</u>
Total Assets	<u>\$815,892,060.11</u>	<u>\$2,785,233,570.63</u>	<u>\$3,601,125,630.74</u>
Liabilities and Fund Balances:			
Due Investors			
Note 6	\$960,480,679.95	\$2,684,244,448.55	\$3,644,725,128.50
Payables for Investments Purchased	-0-	100,461,115.52	100,461,115.52
Due West Virginia State General Fund	<u>\$ 102,374.81</u>	<u>\$ 528,006.56</u>	<u>\$ 630,381.37</u>
Total Liabilities	\$960,583,054.76	\$2,785,233,570.63	\$3,745,816,625.39
Fund Balance (Deficit) Note 5	<u>(144,690,994.65)</u>	<u>-0-</u>	<u>(144,690,994.65)</u>
Total Liabilities and Fund Balances	<u>\$815,892,060.11</u>	<u>\$2,785,233,570.63</u>	<u>\$3,601,125,630.74</u>

See Notes to Financial Statement

WEST VIRGINIA STATE BOARD OF INVESTMENTS
CONSOLIDATED FUND AND CONSOLIDATED PENSION FUND
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 1991

1. DESCRIPTION OF THE ENTITY

The accompanying financial statements reflect the investment balances of the Consolidated Fund and the Consolidated Pension Fund (the "Funds") under the management of the Board of Investments (the Board) as provided in the West Virginia Code Chapter 12-6-8(a) and (b). The Code established these funds to provide for the investment of State funds, the investment of local government funds and the investment of the State's pension funds. These financial statements reflect only the investments of the pools under the management of the Board and do not reflect any other assets or liabilities of the various pool participants.

The individual pools within the Funds and a brief description of each follows.

Consolidated Fund

Unrestricted Pool - This investment pool consists of the operating funds of the State and certain State agencies. Its purpose is to provide for the investment of all surplus funds and supply the daily cash needs of the State.

State Agency Trust Pool - This pool is comprised of funds held in trust by State agencies.

Local Government Pool - The local government pool is available for investment of funds from any local government who desires the opportunity to invest with the State.

Restricted Pool - This pool is available for the investment of unexpended bond proceeds, debt service funds and amounts escrowed under the requirements of bond issuances.

Loss Amortization Pool - This pool was created to account for those participant claims of the general operating funds of the State which exceeded the underlying assets of the other pools. This excess of participant claims on net assets over underlying assets occurred as a result of the distributions of earnings to participants in various Board investment pools, principally the unrestricted pool, in excess of the true investment income experience of the pools, principally in 1987 and 1988.

Single Account Pools - The Single Account Pools are comprised of funds from individual State agencies with specific investment needs. The funds held by the Single Account Pools are not commingled, but rather each agency has 100% ownership of the underlying investments in a dedicated, single account pool.

Each pool, with the exception of the Loss Amortization Pool and the Single Account Pools, has its own investment advisor who makes investment decisions within the parameters provided in the administrative regulations of the West Virginia State Board of Investments. All investment decisions are then executed by the Board.

Consolidated Pension Fund

The various investment funds which comprise the Consolidated Pension Fund have been established to provide for the investment of funds of the Public Employees' Retirement System, Teachers' Retirement System, Public Safety Retirement System, Judges' Retirement System, Workers' Compensation Fund, Workers' Compensation Fund II and Pneumoconiosis Fund. Assets of each of these pools are maintained separately. Each pool has its own investment advisor who makes investment decisions within the parameters provided in the Administrative regulations of the West Virginia State Board of Investments.

2. SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Accounting - The Board is the investment vehicle of the State of West Virginia and its component units, all of which are governmental entities. As a result, as permitted within governmental accounting standards, the Board carries its investments at cost, adjusted for amortization of premium and accretion of discount. Commissions on purchases of securities by the Board are generally an unidentified component of the security price quoted by the seller and are included in the investment cost or carrying value.
- b. Investment Transactions - Investment transactions are accounted for on a trade date basis.
- c. Investment Gains and Losses - Gains and losses on sales of investment securities are recognized at the time of sale by the specific identification method.
- d. Interest Income - Interest income is recognized as earned on the accrual method.
- e. Allowance for Possible Loan Losses - The allowance for possible loan losses is available to absorb future loan charge-offs. The allowance is increased by provisions charged to operations and reduced by losses or charge-offs, net of recoveries. The amount charged to operations is based on several factors including: analytical reviews of loan loss experience in relationship to outstanding loans; a continuing review of problem loans and overall portfolio quality, including analysis of the quality of the underlying collateral; and management's judgment on the impact of current and expected economic conditions on the portfolio.
- f. Expenses - All the expenses of the Funds, except for fees paid for banking services and a service fee, are paid by the Board of Investments from appropriations granted by the State Legislature. Fees for banking services are paid by the Board through the use of the investment earnings.

of the Bank Compensation Pool, one of the Single Account Pools of the Consolidated Fund. The pools are assessed a management service fee by the Board. The service fee ranges from a flat fee to 1% of the monthly earnings of the pool. This service fee is remitted to the general fund of the State on a monthly basis.

- g. Income Taxes - Under the provisions of Section 115 of the Internal Revenue Code and the provisions of the West Virginia Code, the Funds are not subject to federal or state income tax.

3. INVESTMENTS

Risk Categorization - In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, investments are classified as to level of risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the State or its agent in the State's name.

Category 2 - Uninsured and unregistered, or securities held by the counterparty's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered, or securities held by the counterparty's trust department or agent but not in the State's name.

Investments at December 31, 1991, by security type and level of risk category, are as follows (in thousands of dollars):

<u>Security Type</u>	<u>CONSOLIDATED FUND</u>	<u>CONSOLIDATED PENSION FUND</u>	<u>TOTAL</u>	<u>CATEGORY 1</u>	<u>CATEGORY 2</u>
U.S. government and government agency obligations	\$432,866,478.59	\$2,278,897,810.00	\$2,711,764,288.59	\$2,711,764,288.59	\$ -0-
State & local government securities	28,918,800.00	-0-	28,918,800.00	28,918,800.00	-0-
Corporate bonds and notes	-0-	137,661,264.65	137,661,264.65	137,661,264.65	-0-
Repurchase agreements	244,954,913.21	170,835,373.80	415,790,287.01	398,085,160.45	17,705,126.56
Collateralized mortgage obligations	-0-	34,311,391.77	34,311,391.77	34,311,391.77	-0-
Loans - net of allowance for possible loan losses	97,134,777.60	116,556,502.57	213,691,280.17	213,691,280.17	-0-
Other	4,722,051.08	-0-	4,722,051.08	3,142,775.08	1,579,276.00
	<u>\$808,597,020.48</u>	<u>\$2,738,262,342.79</u>	<u>\$3,546,859,363.27</u>	<u>\$3,527,574,960.71</u>	<u>\$19,284,402.56</u>

The repurchase agreements included in Category 1 are owned by the Single Account Pools. All other repurchase agreements for all pools in both funds are included in Category 2. Category 2 also included other investments of \$1,579,000 owned by the Single Account Pools.

COMPARISON OF BOOK AND MARKET
 WEST VIRGINIA STATE BOARD OF INVESTMENTS
 DECEMBER 31, 1991

<u>DESCRIPTION</u>	<u>CONSOLIDATED FUND</u>		<u>CONSOLIDATED PENSION FUND</u>	
	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>
U.S. government and government agency obligations	\$432,866,478.59	\$454,253,069.34	\$2,278,897,810.00	\$2,468,510,023.15
State & local government securities	28,918,800.00	N/A ^{1/}	-0-	-0-
Corporate bonds and notes	-0-	-0-	137,661,264.65	139,079,608.45
Repurchase agreements	244,954,913.21	244,954,913.21	170,835,373.80	170,835,373.80
Collateralized mortgage obligations	-0-	-0-	34,311,391.77	36,304,800.00
Loans - net of allowance for possible loan losses	97,134,777.60	N/A ^{1/}	116,556,502.57	N/A ^{1/}
Other	4,722,051.08	N/A ^{1/}	-0-	-0-
	<u>\$808,597,020.48</u>	<u>\$699,207,982.55</u>	<u>\$2,738,262,342.79</u>	<u>\$2,778,425,005.40</u>

^{1/} Market Values - Investments held by the Funds at December 31, 1991 include loans consisting primarily of economic development and mortgage loans. These loans have no ready market values and, therefore, no market value is reported. State and local government securities (SLGS) are direct obligations of the U.S. government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits. As the SLGS are issued to retire debt investments, market values is not a meaningful measure.

4. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

As occasionally required by the Legislature, the pools will originate loans, loan funds to other State agencies for the purpose of originating loans and purchase loans originated by other State agencies. These loans are generally limited to economic development loans and mortgage loan programs within the State of West Virginia.

In 1991, the Board implemented a policy to review its loan portfolio for purposes of the establishment of an allowance for possible loan losses. This allowance in the aggregate amounted to \$7,569,000.00 at December 31, 1991 and was provided for through a charge to operations in 1991. No assessment has been made to determine the amount of the provision recorded during 1991 which related to prior years.

The composition of loans and the allowance for possible loan losses at December 31, 1991 are as follows (in thousands of dollars):

	<u>CONSOLIDATED FUND</u>	<u>CONSOLIDATED PENSION FUND</u>
Loans:		
West Virginia Economic Development Authority	\$81,038,572.75	\$ 52,116,112.11
Other	<u>17,907,204.85</u>	<u>65,503,512.46</u>
	98,945,777.60	117,619,624.57
Less allowance for possible loan losses	<u>1,811,000.00</u>	<u>1,063,122.00</u>
	<u>\$97,134,777.60</u>	<u>\$116,556,502.57</u>

5. SCHEDULE FOR STATUS OF INVESTMENT DIFFERENCE
 WEST VIRGINIA STATE BOARD OF INVESTMENTS
 DECEMBER 31, 1991

The following schedule updates as of December 31, 1991, the carrying cost and market value of the securities purchased to fund the investment difference.

Investment difference from Pool 100 and 140 \$183,407,663.70

Securities Held to Offset the Difference:

<u>Description</u>	<u>Maturity</u>	<u>Carrying Cost</u>	<u>Market Value</u>	<u>Face Value</u>
Zero Coupon Bonds	02/15/2005	\$ 7,782,722.60	\$ 8,257,920.00	\$ 22,000,000.00
Zero Coupon Bonds	08/15/2005	9,059,955.07	11,180,150.00	31,000,000.00
Zero Coupon Bonds	02/15/2010	3,899,584.34	4,930,000.00	20,000,000.00
Zero Coupon Bonds	11/15/2011	15,431,919.28	17,193,033.00	80,300,000.00
Zero Coupon Bonds	10/15/2019	<u>2,542,487.06</u>	<u>3,352,100.65</u>	<u>30,115,000.00</u>
Total Zero Coupon Bonds		<u>\$38,716,668.35</u>	<u>\$44,913,203.65</u>	<u>\$183,415,000.00</u>

Current difference
 (Fund Balance less Carrying
 Cost) \$144,690,995.35

Securities held in excess of amounts
 needed to fund difference \$ 7,336.30

6. COMPONENTS OF DUE INVESTORS

The following components make up the amounts due the investors in each of the Fund at December 31, 1991:

	<u>CONSOLIDATED FUND</u>	<u>CONSOLIDATED PENSION FUND</u>
Investors' Balances	\$956,735,583.16	\$2,665,631,527.87
Undistributed Earnings	4,906,096.79	18,612,920.68
Undistributed Reserve for Loan Losses	<u>(1,161,000.00)</u>	<u>-0-</u>
	<u>\$960,480,679.95</u>	<u>\$2,684,244,448.55</u>

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Postaudit Division, do hereby certify that the report of audit appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 12, Article 6, Section 15, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 1st day of February,
1992.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

Copy forwarded to each member of the Legislature, each member of the Board and the Attorney General.