WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA AND
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2007
AND
INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the West Virginia Department of Transportation, Division of Highways, as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation, Division of Highway's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation, Division of Highways' 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 the 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 Department of Transportation, Division of Highways are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the West Virginia Department of Transportation and of the State of West Virginia, that is attributable to the transactions of the Division of Highways. As a result, the financial statements do not purport to, and do not, present fairly, the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2007 and the changes in their financial position 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 and each major fund of the West Virginia Department of Transportation, Division of Highways, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road (General) Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 16, 2007 on our consideration of the West Virginia Department of Transportation, Division of Highways' internal control over financial reporting and on 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.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by 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.

Wayfield & Stanley, CPA's, PLLC

November 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2007. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Division's total combined net assets are $6.9 billion as of the close of fiscal year 2007.

Changes in Net Assets - During the year the Divisions' Net Assets increased $281 million or 4.24%. This percentage of increase is a slight decline from the prior year, when Net Assets increased $294 or 4.65%.

Revenues and Expenses - Total revenues decreased by $13 million or 1.16%. Total expenses increased $1 million or 0.12%. There were no significant changes in the programs carried out by the Division during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2007, the Division's governmental funds reported combined total fund equity of $388 million, an increase of $156 million in comparison with the prior year. Of this total amount, $355 million represents the "unreserved fund balances" with substantially all of that in the general fund. This is approximately 34.55% of the total governmental fund expenditures for the year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by $18 million during the current fiscal year. The Division sold two issues of Surface Transportation Improvements Special Obligation Notes increasing debt by $109 million for a net increase in debt of $91 million or 20.31%.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the Division's basic financial statements. The Division's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements

Government-wide financial statements provide both long-term and short-term information about the Division's financial condition. Changes in the Division's financial position may be measured over time by increases and decreases in the Statement of Net Assets. Information on how the Division's net assets changed during the fiscal year is presented in the Statement of Activities.

Fund Financial Statements

The fund financial statements focus on the individual parts of the Division, reporting the Division's operations in more detail than the government-wide financial statements. Fund financial statements can include the statements for governmental, proprietary, and fiduciary funds. The Division has only governmental funds.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Division's net assets as of June 30, 2007 and 2006 (amounts in thousands).

Net Assets as of June 30

	2007	2006	% Change
Total current assets	$ 469,570	$ 306,036	53.44%
Capital assets, net of accumulated depreciation	7,162,668	6,953,347	3.01%
Other non-current assets	2,830	2,435	16.22%
Total assets	7,635,068	7,261,818	5.14%
Total current liabilities	145,901	115,336	26.50%
Long term liabilities	586,301	524,536	11.78%
Total liabilities	732,202	639,872	14.43%
Invested in capital assets, net of related debt	6,592,210	6,475,338	1.80%
Restricted	13,975	8,512	64.18%
Unrestricted	296,681	138,096	114.84%
Total net assets	$ 6,902,866	$ 6,621,946	4.24%

The largest component (95.50%) of the Division's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The Division uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion is classified as either restricted or unrestricted net assets the unrestricted net assets, may be used at the Division's discretion. The restricted net assets has constraints as to how these funds may be used, this enabling legislation directs the use of these funds.

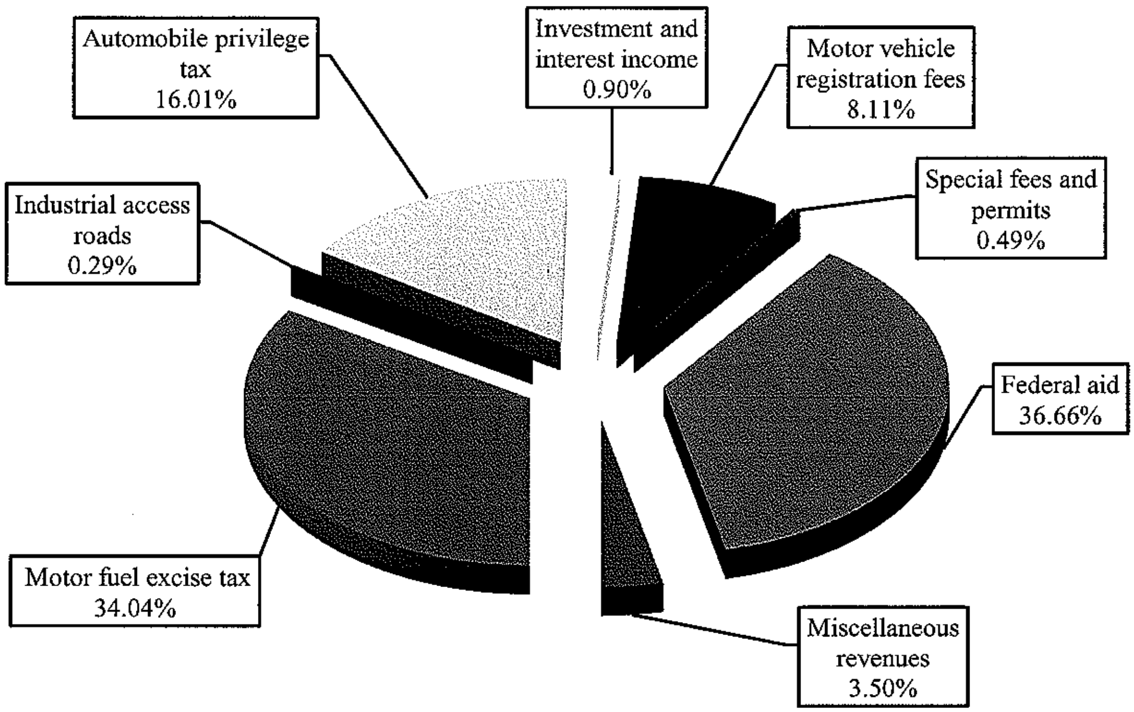
Condensed Statement of Activities

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

	2007	2006	% Change
Revenues			
Taxes	$ 535,979	$ 501,022	6.98%
Investment and interest income	9,652	4,701	105.32%
Miscellaneous revenues	37,459	53,255	(29.66%)
Total general revenues	583,090	558,978	4.31%
Federal aid	392,533	429,583	(8.62%)
Industrial access roads	3,126	3,016	3.65%
Charges for service	92,103	91,824	0.30%
Total program revenues	487,762	524,423	(6.99%)
Total revenues	1,070,852	1,083,401	(1.16%)
Expenses			
Road maintenance	338,550	316,475	6.98%
Other road operations	365,796	366,874	(0.29%)
General and administration	59,358	81,349	(27.03%)
Interest on long-term debt	22,977	21,283	7.96%
Unallocated depreciation	3,251	3,030	7.29%
Total expenses	789,932	789,011	0.12%
Change in net assets	280,920	294,390	(4.58%)
Net assets, beginning	6,621,946	6,327,556	4.65%
Net assets, ending	$ 6,902,866	$ 6,621,946	4.24%

Over time, increases and decreases in net assets measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by $281 million or 4.24% percent.

The following chart depicts the revenues of the Division for the fiscal year.



Total revenues decreased by approximately $13 million. Total tax revenues increased by approximately $35 million. Federal aid revenue decreased by approximately $37 million or (8.62%). The following summarizes revenues for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

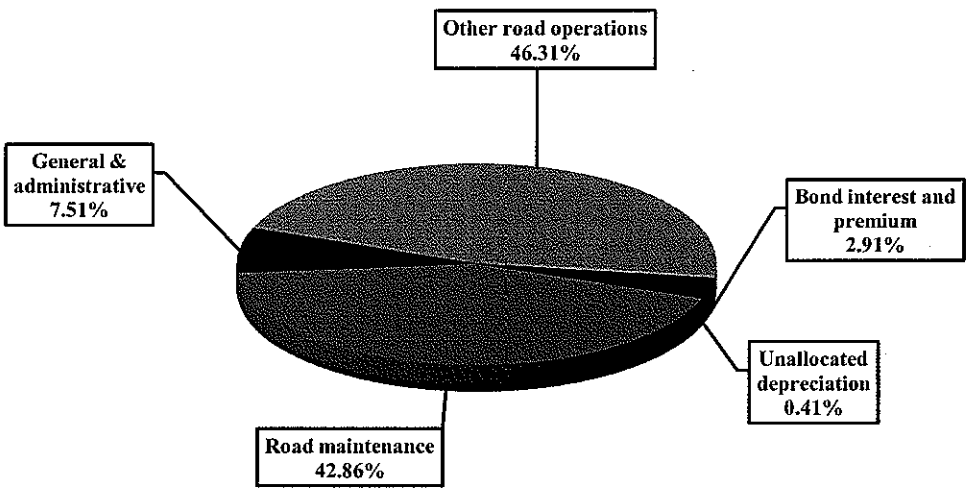
	2007	2006	Increase (decrease)	% Increase (decrease)
Motor fuel excise tax	$ 364,550	$ 330,538	$ 34,012	10.29%
Industrial access roads	3,126	3,016	110	3.65%
Automobile privilege tax	171,429	170,484	945	0.55%
Motor vehicle registration fees	86,840	87,534	(694)	(0.79%)
Special fees and permits	5,263	4,290	973	22.68%
Federal aid	392,533	429,583	(37,050)	(8.62%)
Investment and interest income	9,652	4,701	4,951	105.32%
Miscellaneous revenues	37,459	53,255	(15,796)	(29.66%)
	$ 1,070,852	$ 1,083,401	$ (12,549)	(1.16%)

The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration and license fees, net of costs incurred by the Division of Motor Vehicles in collecting funds for deposit into the State Road Fund.

Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2003 through fiscal year 2007, actual cash revenues exceeded estimates by only 1.75%. While those extra dollars allowed the Division to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the agency to adjust its budgets for inflationary increases. In FY 2008, Motor Fuel Tax revenues are projected to be approximately 14% above FY 2007 level due to the increase in the variable component of the tax, but the other revenue sources will remain relatively flat. Although the agency will be able to increase its budgets somewhat, it is anticipated that nondiscretionary costs will continue to rise. Consequently, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future.

The Division also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Division expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2007 were authorized under the new Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

The following chart depicts expenses of the Division for the fiscal year.



Total expenses increased by approximately $1 million 0.12%. The following summarizes expenditures for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

	2007	2006	Increase (decrease)	% Increase (decrease)
Road maintenance	$ 338,550	$ 316,475	$ 22,075	6.98%
Other road operations	365,796	366,874	(1,078)	(0.29%)
General and administration	59,358	81,349	(21,991)	(27.03%)
Interest on long-term debt	22,977	21,283	1,694	7.96%
Unallocated depreciation	3,251	3,030	221	7.29%
	$ 789,932	$ 789,011	$ 921	0.12%

The maintenance expenses of the Division are comprised primarily of routine maintenance, small bridge repair, and contract paving.

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow and ice removal that is required in a given year.

Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the Division's Fund Financial Statements below.

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS

At June 30, 2007, the Division reported fund balances of $388 million. Of this total amount, $355 million, 91.43%, constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2007 fiscal year, unreserved fund balance of the General Fund was $273 million and reserved fund balance was $33 million. The total General Fund balance increased $74 million during the year primarily due to a combination of reduced expenditures and increased Motor Fuel Tax revenue, resulting from the $.045 increase in the variable component of the fuel tax rate.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. The current GARVEE note sales are for the construction of portions of the US 35 corridor. At June 30, 2007 the balance of $82 represented unexpended note funds associated with the 2006A and 2007A note issues.

State Road (General) Fund and Budgetary Highlights

The Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have changed little over the past several years, any improvements in fuel efficiency would have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. For five of the previous six years, tax and fee revenue collections increased over the previous year. Tax and fee revenue collections increased by approximately $34 million in 2007: they increased $2 million during the previous year. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	2007	2006	Change	%Change
Motor fuel excise and wholesale fuel	$ 364,550	$ 330,538	$ 34,012	10.29%
Motor vehicle registration	86,840	87,534	(694)	(0.79%)
Privilege tax	171,429	170,484	945	0.55%
	$ 622,819	$ 588,556	$ 34,263	5.82%

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly On January 1, 2007, the rate rose from 6.5 cents to 11 cents per invoiced gallon.

Automobile privilege tax collections were positively impacted from 2002 through 2007 by low interest rates and significant incentives offered by automobile manufacturers. The automobile privilege taxes increased $1 million in 2007.

The Division's federal revenue for budgetary purposes for fiscal year 2007 was $390 million, to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	2007	2006	Change	%Change
Federal reimbursement - budgeted funds	$ 386,875	$ 423,979	$ (37,104)	(8.75%)
Federal Reimbursement – Surface Transportation	1,207		1,207	100.0%
Federal reimbursement - emergency funds	4,451	5,604	(1,153)	(20.57%)
Total federal aid	$ 392,533	$ 429,583	$ (37,050)	(8.62%)

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Division's revenue increases are not projected to keep pace with increases in costs related to retirement, health insurance, and other increases that are non-discretionary in nature. The fiscal 2008 budget reflects a budgeted decrease in fund balance of approximately $17 million. Management is taking all necessary steps to ensure that the fund balance of the Division is maintained at levels that are adequate to ensure the soundness of the Division and is confident that adequate discretionary items exist to permit the Division to continue to operate in a fiscally sound manner. Under SAFETEA-LU, the Division annually receives an average of $316 million in federal funding. In order to capture that federal aid the Division needs $58.2 million annually in state matching funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the Division had invested $7.2 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled $278 million.

The $209 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by $257million in depreciation of the infrastructure. The Division expended $490 million dollars during the year ended June 30, 2007 for additions to capital assets. Of this amount, $469 million was related to the acquisition of right of way and construction of roads and bridges. Construction costs for completed projects in the amount of $344 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County, Corridor D in Wood County, upgrade of WV 10 in Logan County, widening of I-64, upgrade of WV Route 9 in the Eastern Panhandle, upgrade of US Route 35 in Putnam County, upgrade of US Route 52 in Mingo County, upgrade of WV 16 in Fayette County and continued environmental studies on various projects in process.

Long-term Debt

The Division has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2007, the Division had $430 million in outstanding bonds. The amount outstanding decreased by $18 million (4.05%) due to net principal payments.

The Division has been authorized to issue revenue notes in the amount of $200 million by constitutional amendment. The Division issued revenue notes in the amount of $76 million in October 2006 and $33 million in April 2007. It is anticipated that another estimated $91 million will be issued during fiscal year 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue

The following is a summary of the amounts outstanding, including insured status and bond and note ratings:

Issue	Status of insurance	Bond Rating		Amount (in thousands)	
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: Moody's: S&P:	AAA Aaa AAA	$	51,510
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-		4.470
Safe Roads 01A - Bonds maturing between June 1, 2006 to 2013	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		57,490
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-		860
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		315,515
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) – Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept.1 2007 and Sept. 1, 2008 Insured by FSA – notes maturing after Sept. 1, 2008	Fitch: Moody's: S&P:	AAA Aaa AAA		75,970
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) – Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept.1 2007 and Sept. 1, 2008 Insured by FSA – notes maturing after Sept. 1, 2008	Fitch: Moody's: S&P:	AAA Aaa AAA		33,190
				$	539,005

More detailed information regarding capital asset and long-term debt activity is included in the notes 7 and 9, respectively to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Division for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia Department of Transportation, Division of Highways at 1900 Kanawha Boulevard, East, Building 5, Room 220, Charleston, West Virginia 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF NET ASSETS
JUNE 30, 2007

(amounts expressed in thousands)

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	$	271,662
Restricted cash and cash equivalents		50
Accounts receivable, net		86,894
Taxes receivable		74,562
Due from other State of West Virginia agencies		3,143
Inventories		33,259
Total current assets		469,570
Non-current assets		
Capital assets, net of accumulated depreciation		
Land - non-infrastructure		15,403
Land improvements		4,404
Land Improvements - work in progress		598
Buildings		65,195
Buildings - work in progress		2,041
Furniture and fixtures		323
Rolling stock		58,860
Scientific equipment		620
Shop equipment		70
Roads		3,608,137
Bridges		1,286,064
Land - infrastructure		844,674
Construction in progress		1,276,279
Total capital assets		7,162,668
Other non-current assets		2,830
Total assets		7,635,068
LIABILITIES		
Current liabilities		
Accounts payable		52,862
Retainages payable		9,047
Accrued payroll and related liabilities		16,866
Due to other State of West Virginia agencies		2,782
Accrued interest payable		3,279
Current maturities of long term obligations		61,065
Total current liabilities		145,901
Non-current liabilities		
Claims and judgements		5,420
Compensated absences		51,687
Long - term debt obligations		529,194
Total non-current liabilities		586,301
Total liabilities		732,202
NET ASSETS		
Invested in capital assets, net of related debt		6,592,210
Unrestricted		296,681
Restricted		
Coal Resource		8,417
Waste Tire		3,353
Industrial Access		7,104
Salvage Yards		(2,385)
Outdoor Advertising		(2,514)
Total net assets	$	6,902,866

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF ACTIVITES
FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Assets
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	$ 262,684			$ (262,684)
Contract paving & secondary roads	42,785			(42,785)
Small bridge repair & replacement	14,002			(14,002)
Litter control program	1,663			(1,663)
Depreciation	17,416			(17,416)
Other road operations				
Interstate highways	11,514		$ 56,801	45,287
Appalachian highways	3,994		93,552	89,558
Other federal aid programs	82,182		242,180	159,998
Non federal aid improvements	9,407			(9,407)
Industrial access roads	1,407		3,126	1,719
Depreciation	257,292			(257,292)
General and administration				
Support and administrative operations	27,108	$ 5,263		(21,845)
Claims	(3,000)			3,000
Costs associated with DMV	35,250	86,840		51,590
Interest on long-term debt	22,977			(22,977)
Unallocated depreciation	3,251			(3,251)
	$ 789,932	$ 92,103	$ 395,659	(302,170)
General revenues				
Taxes:				
Gasoline and motor carrier				364,550
Automobile privilege				171,429
Investment and interest income				9,652
Miscellaneous revenues				37,459
Total general revenues				583,090
Change in net assets				280,920
Net assets, beginning				6,621,946
Net assets, ending				$ 6,902,866

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2007

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	$ 182,292	$ 89,420	$ 271,712
Receivables	86,894	-	86,894
Taxes receivable	74,562	-	74,562
Due from other funds	192	-	192
Due from other State of West Virginia agencies	3,143	-	3,143
Inventories	33,259	-	33,259
Total assets	$ 380,342	$ 89,420	$ 469,762
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 45,652	$ 7,210	$ 52,862
Retainages payable	9,047	-	9,047
Accrued payroll and related liabilities	16,866	-	16,866
Due to other funds	-	192	192
Due to other State of West Virginia agencies	2,782	-	2,782
Total liabilities	74,347	7,402	81,749
Fund balances			
Reserved for inventories	33,259	-	33,259
Unreserved, undesignated	272,736	82,018	354,754
Total fund balances	305,995	82,018	388,013
Total liabilities and fund balances	$ 380,342	$ 89,420	$ 469,762

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

(amounts expressed in thousands)

Total fund balances - governmental funds			$	388,013
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:				
Land - non infrastructure	$	15,403		
Land improvements- non infrastructure		4,404		
Land improvements- work in progress		598		
Buildings		65,195		
Buildings - work in progress		2,041		
Furniture and Fixtures		323		
Rolling Stock and Shop Equipment		58,860		
Scientific Equipment		620		
Shop Equipment		70		
Roads		3,608,137		
Bridges		1,286,064		
Infrastructure Land		844,674		
Work in progress		1,276,279		7,162,668
Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.				2,830
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:				
Accrued interest payable		(3,279)		
Claims and judgments		(6,050)		
Compensated absences		(70,858)		
General obligation bonds and revenue notes		(570,458)		(650,645)
Net assets of governmental activities			$	6,902,866

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
Revenues			
Taxes			
Gasoline and motor carrier	$ 364,550		$ 364,550
Automobile privilege	171,429		171,429
Industrial access roads	3,126		3,126
License, fees and permits			
Motor vehicle registrations and licenses	86,840		86,840
Special fees and permits	5,263		5,263
Federal aid			
Interstate highways	56,801		56,801
Appalachian highways	93,552		93,552
Other federal aid programs	240,973	$ 1,207	242,180
Investment and interest income, net of arbitrage rebate	6,879	2,773	9,652
Miscellaneous revenues	37,459		37,459
	1,066,872	3,980	1,070,852
Expenditures			
Current			
Road maintenance			
Expressway, trunkline and feeder, state and local services	258,720	-	258,720
Contract paving and secondary roads	42,785	-	42,785
Small bridge repair and replacement	17,100	-	17,100
Litter control program	1,663	-	1,663
Support and administrative operations	55,911	-	55,911
Division of Motor Vehicles operations	34,754	-	34,754
Claims	144	-	144
Capital outlay and other road operations			
Road construction and other road operations			
Interstate highways	70,926	-	70,926
Appalachian highways	132,747	-	132,747
Other federal aid programs	315,798	32,852	348,650
Nonfederal aid construction and road operations	20,365	-	20,365
Industrial access roads	1,407	-	1,407
Debt service			
Principal	18,150		18,150
Interest	22,235	1,207	23,442
	992,705	34,059	1,026,764
Excess (deficiency) of revenues over expenditures	74,167	(30,079)	44,088
Other financing sources (uses)			
Proceeds from Bond issues	-	112,097	112,097
Net change in fund balances	74,167	82,018	156,185
Fund balances, beginning of year	231,828	-	231,828
Fund balances, end of year	$ 305,995	$ 82,018	$ 388,013

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	156,185
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of $ 490,171, exceeded depreciation of ($277,959) in the current period.		212,212
In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds. The proceeds from the sale increase financial resources. Thus the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold.		(2,891)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(93,947)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the decrease in compensated absenses of $5,752, accretion of bond premiums of $2,243, an increase in interest payable of ($1,427) , exceeded the decrease in claims $3,144 and amortization of bond issuance costs of ($351).		9,361
Change in net assets of governmental activities	$	280,920

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	$ 290,000	$ 25,000	$ 315,000	$ 349,172	$ 34,172
Automobile privilege	175,686	(7,264)	168,422	173,306	4,884
Motor vehicle registrations and licenses	88,008	-	88,008	87,058	(950)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,034)	(34)
Federal aid	485,177	36,112	521,289	389,643	(131,646)
Miscellaneous revenues	10,664	1,285	11,949	14,164	2,215
	1,046,535	55,133	1,101,668	1,010,309	(91,359)
Expenditures					
Road construction and other road operations					
Interstate highways	84,000	(4,000)	80,000	64,077	15,923
Appalachian highways	150,000	-	150,000	120,405	29,595
Other federal aid programs	325,700	50,000	375,700	314,362	61,338
Nonfederal aid construction	25,000	8,000	33,000	19,603	13,397
Road maintenance					
Maintenance	256,700	11,000	267,700	253,868	13,832
Contract paving and secondary roads	37,000	13,000	50,000	43,294	6,706
Small bridge repair and replacement	30,000	(8,000)	22,000	16,790	5,210
Litter control program	1,664	-	1,664	1,664	-
Support and administrative operations					
General operations	42,500	-	42,500	29,652	12,848
Equipment revolving	15,000	-	15,000	5,035	9,965
Inventory revolving	2,000	-	2,000	(1,443)	3,443
Debt service	41,000	-	41,000	39,621	1,379
PSC Weight Enforcement	4,667	-	4,667	4,667	-
Division of Motor Vehicles operations	37,333	-	37,333	33,092	4,241
Claims - DOH and DMV	144	-	144	144	-
	1,052,708	70,000	1,122,708	944,831	177,877
Excess (deficiency) of revenues over expenditures	(6,173)	(14,867)	(21,040)	65,478	86,518
Fund balance, beginning of year	113,598	(14,871)	98,727	100,002	1,275
Fund balance, end of year	$ 107,425	$ (29,738)	$ 77,687	$ 165,480	$ 87,793

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, Division of Highways (the "Division") 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).

REPORTING ENTITY - The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the State Legislature. The Division is considered a component unit of the State and its financial statements are blended with the financial statements of the primary government in the State's comprehensive annual financial report.

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2007 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation, which collects certain revenues for expenditure by the Division. The expenditures related to the collection of these revenues are recorded in the State Road Fund of the Division.

The Public Service Commission collects revenues from coal companies that are operating trucks with excessive weights. These revenues are deposited into the Coal Resource fund, which is controlled by the Division.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Division does not allocate general government (indirect) expenses to other functions.

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. The government-wide statement of net assets reports $14,085 restricted assets, of which all is restricted by enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the Division'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.

GOVERNMENTAL 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 Division considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting for the governmental fund financial statements include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2007, has been reported only in the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, an employee may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium or to increase service credits for retirement purposes. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.

- The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate prior to July 1, 2001. The liability for accumulated post-employment health insurance has been reported only in the government-wide financial statements.

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.

- Claims and judgments are recorded only when payment is due.

FUND ACCOUNTING - The Division uses funds to report its financial position and the results of its operations. 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:

- State Road (General) Fund - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.

- The Capital Projects Fund – This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2007 are a result of these routine payments and transfers.

BUDGETING AND BUDGETARY CONTROL - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 45 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 45 days after the end of the fiscal year, are incorporated into the Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as special items. Any revisions that alter overall budgeted expenditures for an expenditure category must be approved by the State Legislature.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the coal resource fund, industrial access fund and certain monies reported within the State Road Fund for accounting principles generally accepted in the United States of America purposes, are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2007, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	$	65,478
Basis of accounting differences (budgetary to GAAP)		6,454
Unbudgeted funds		2,235
Excess of revenues over expenditures - GAAP basis	$	74,167

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 in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Division at rates specified by the BTI based on the balance of the Division's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the BTI.

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 BTI for investment in accordance with the West Virginia Code, policies set by the BTI, and provisions of bond indentures and trust agreements when applicable. The West Virginia Legislature, effective July 8, 2005, established the BTI to manage the short-term operating funds of the State. Prior to this date, the West Virginia Investment Management Board (the "IMB") was responsible for investment of both the short-term and long-term funds. The Legislature declared this transfer to ensure direct governmental oversight of state general and special revenue funds. The IMB continues to manage the retirement funds, the employment security funds, and other assets with longer time horizons.

INVENTORIES - Inventories are stated at weighted average cost generally using the "consumption method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserve for inventories" in the Government Fund Financial Statements.

CAPITAL ASSETS - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the Division, such as roads, bridges, and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Division as follows:

- Non-infrastructure assets with a useful life of at least three years and:
  - A cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; or
  - An acquisition cost of twenty-five thousand dollars or more for buildings at the date of acquisition; and
- Infrastructure assets with a cost in excess of one million dollars.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at their fair market value at the date of donation.

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Building and non-infrastructure land have been recorded at cost since 1983. Infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the West Virginia Department of Transportation in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Division has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

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.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

- Machinery and equipment: 5 - 20 years
- Buildings: 40 years
- Furniture and fixtures: 3 - 20 years
- Rolling stock: 1 - 20 years
- Scientific equipment: 2 - 25 years
- Infrastructure: roads - 30 years
- Infrastructure: bridges - 50 years

ACCOUNTS AND TAXES RECEIVABLE - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily gasoline and wholesale fuel taxes and automobile privilege taxes, which are collected within forty-five days after year end. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

OTHER ASSETS - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

CLAIMS - Claims awarded against the Division in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures in the fund financial statements for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature. A liability for unfunded claims is recorded in the government-wide financial statements when management and the Division's legal section determine that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. Expenditures for compensated absences are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

POSTEMPLOYMENT BENEFITS - The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Division's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the postemployment benefits. Employees hired subsequent to July 1, 2001 are not eligible for these benefits. Expenditures for postemployment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-employment health insurance as a liability.

RETIREMENT BENEFITS - The Division'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 Division, with employer contributions prescribed by the State Legislature as a percentage of covered payroll.

PREMIUMS, DISCOUNTS AND ISSUANCE COSTS - In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental activities. Where material, bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

RECENT STATEMENTS ISSUED BY THE GASB - The following statements were adopted by the Division during the fiscal year ended June 30, 2007:

- The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2007, the Division is required to participate in this multiple employer cost sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia, 25305-0710 or http://www.wvpeia.com. No liability related to this plan exists for the Division at June 30, 2007. The impact on the Division's financial statements in subsequent years has not yet been determined, but such amount may be significant.

(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The GASB has issued Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

- The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

- The GASB has issued Statement No. 50. *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007, This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The Division has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

- The GASB has issued Statement No. 51. *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Division has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 18,413	$ 18,413
Cash on deposit with State Treasurer invested in BTI cash liquidity pool	163,177	163,177
Cash on deposit with State Treasurer invested in BTI money market pool - (Garvee 2007A)	31,958	31,958
Cash on deposit with Huntington Bank	50	50
Cash on Deposit with BTI – (Garvee 2006A)	57,005	57,005
Cash in transit	1,109	1,109
	$ 271,712	$ 271,712

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

West Virginia Board of Treasury Investments (BTI) Cash Liquidity Pool, Government Money Market Pool, and Division of Highways Account

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 BTI policies and procedures.

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the Authority may invest in three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The Pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

	Credit Rating *			
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
Total corporate bonds and notes			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Total investments			2,027,831	97.59
Deposits:				
Nonnegotiable certificates of deposit	NR*	NR*	50,000	2.41
			$ 2,077,831	100.00%

* NR = Not Rated

The Division's ownership represents 7.85% of these amounts held by BTI.

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

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

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46%
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	-
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	51,400	22.39
			$ 229,551	100.00%

The Division's ownership represents 13.92% of these amounts held by BTI.

The Division of Highways Account provides for the investment of proceeds from the issuance and sale of $90 million Surface Transportation Improvements Special Obligation Notes (Garvee 2006A). The BTI does not have a policy specifically addressing credit risk in the Division of Highways Account. The following table provides information on the credit ratings of the Division of Highways Account investments (in thousands):

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
Money market funds	Aaa	AAA	$ 11	0.02%
Repurchase agreements (underlying securities):				
U.S. agency mortgage backed securities	Aaa	AAA	56,994	99.98
			$ 57,005	100.00%

The Division's ownership represents 100% of these amounts held by BTI.

Interest Rate Risk

Interest rate risk is the risk that change in interest rates will adversely affect the fair value of an investment. All BTI's Consolidated Fund Pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Security Type		Carrying Value	WAM (Days)
Repurchase agreements	$	246,821	2
U.S. Treasury bills		358,725	30
Commercial paper		1,015,926	52
Certificates of deposit		126,500	76
U.S. agency discount notes		21,655	113
Corporate notes		261,025	58
U.S. agency bonds/notes		46,994	156
Money market fund		185	1
	$	2,077,831	48

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

Security Type		Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$	51,400	2
U.S. Treasury bills		36,379	29
U.S. agency discount notes		74,143	106
U.S. agency bonds/notes		67,620	60
Money market funds		9	1
	$	229,551	49

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

Security Type		Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$	56,994	610
Money market funds		11	1
	$	57,005	610

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Other Investment Risks

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of a BTI Consolidated Fund Pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those Pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name of one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in the leading agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Restricted Cash and Cash Equivalents for Debt Service Repayment

Credit Risk

The Division limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the note trust indenture that investments in money market funds be rated AAAm or AAAm-G or better by S&P. At June 30, 2007 these funds were invested with Huntington Bank in the Huntington Treasury Money Market IV. The following table provides information on the credit ratings of this investment.

Security Type	Moody's	S&P	Carrying Value	Percentage of Assets
Huntington Treasury Money Market IV	Aaa	AAA	$ 50	100%

Concentration of Credit Risk

The Division note trust indenture places no limit on the amount the Authority may invest in any one Issuer. All of the investments for debt service repayment are in the Huntington Treasury Money Market IV.

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a failure of the counterparty, the Division will not be able to recover the value of the investment that is in the possession of an outside party. The Division does not have a policy for custodial credit risk. As of June 30, 2007, $50 thousand of the Division's investments were invested in the Huntington Treasury Money Market IV.

(amounts expressed in thousands)

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Interest rate risk

The weighted average maturity of the Huntington Treasury Money Market Fund IV is less than one year. The funds are invested in money market funds that do not have a maturity date.

		Investment Maturity in Years			
Security Type	Carrying Value	Less than 1	1-5	6-10	More than 10
Huntington Treasury Money Market IV	$ 50	$50	-	-	-

Foreign Currency Risk

The investments for debt service repayment have no securities that are subject to foreign currency risk.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 consisted of the following:

Federal aid billed and not paid	$	17,578
Federal aid earned but not billed		57,718
Total federal aid receivable		75,296
Other receivables		12,003
Combined total receivables		87,299
Less: allowance for uncollectibles		(405)
Net accounts receivable	$	86,894

Accounts receivable representing federal aid earned but not billed relate principally to the Federal Highway Administration's (FHWA) participating share of expenditures on highway projects.

(amounts expressed in thousands)

NOTE 4 - TAXES RECEIVABLE

Taxes receivable at June 30, 2007 consisted of the following:

Automobile privilege taxes	$	25,713
Motor fuel excise taxes		45,448
Registration fees		3,401
	$	74,562

NOTE 5 - DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES

Amounts due from other State of West Virginia agencies at June 30, 2007 consisted of the following:

The Department of Motor Vehicles	$	2,986
Other agencies		157
	$	3,143

Amounts due to other State of West Virginia agencies at June 30, 2007 consisted of the following:

Public Employees Insurance Agency	$	1,193
Public Employee's Retirement		982
Department of Administration		243
Other agencies		364
	$	2,782

NOTE 6 - INVENTORIES

Inventories at June 30, 2007 consisted of the following:

Materials and supplies	$	21,204
Equipment repair parts		9,190
Gas and lubrication supplies		2,865
	$	33,259

(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land - non infrastructure	$ 15,403	$ -	$ -	$ 15,403
Land - infrastructure	806,875	37,878	79	844,674
Construction-in-progress - buildings	1,270	2,066	1,295	2,041
Construction-in-progress – land improvements	437	648	487	598
Construction-in-progress - roads	799,284	261,418	249,959	810,743
Construction-in-progress - bridges	389,022	170,098	93,584	465,536
Total capital assets not being depreciated	2,012,291	472,108	345,404	2,138,995
Capital assets being depreciated:				
Buildings	98,561	1,288	218	99,631
Furniture and fixtures	3,747	175	177	3,745
Land improvements - non infrastructure	6,480	245	-	6,725
Rolling stock	199,537	16,274	15,423	200,388
Shop equipment	3,040	0	-	3,040
Scientific equipment	2,308	81	7	2,382
Infrastructure - roads	6,624,223	249,959	-	6,874,182
Infrastructure - bridges	1,518,716	93,584	-	1,612,300
Total capital assets being depreciated	8,456,612	361,606	15,825	8,802,393
Less accumulated depreciation:				
Buildings	31,924	2,730	218	34,436
Furniture and fixtures	3,386	197	161	3,422
Land improvements - non infrastructure	1,997	324	-	2,321
Rolling stock	138,634	17,303	14,409	141,528
Shop equipment	2,954	16	-	2,970
Scientific equipment	1,672	97	7	1,762
Infrastructure - roads	3,041,128	224,917	-	3,266,045
Infrastructure - bridges	293,861	32,375	-	326,236
Total accumulated depreciation	3,515,556	277,959	14,795	3,778,720
Total capital assets being depreciated, net	4,941,056	83,647	1,030	5,023,673
Governmental activities capital assets, net	$ 6,953,347	$ 555,755	$ 346,434	$ 7,162,668

Current year depreciation totaling $274,708 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining $3,251 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

Asset Type	Depreciation
Buildings and improvements	$ 2,730
Furniture and fixtures	197
Land improvements	324
Total unallocated	3,251
Rolling stock	17,303
Shop equipment	16
Scientific equipment	97
Total road maintenance	17,416
Infrastructure - roads	224,917
Infrastructure - bridges	32,375
Total other road operations	257,292
Total depreciation expense	$ 277,959

NOTE 8 - RETAINAGES PAYABLE

The Division has entered into an arrangement with the BTI whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2007, retainages payable on contracts had been reduced by these amounts on deposit in such accounts to approximately $572.

(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30%-5.25%	06/01/2023	$ 56,755		$ 5,245	$ 51,510
Safe road bonds	1999	4.30%-5.75%	06/01/2017	6,560		2,090	4,470
Safe road bonds	2001	3.50%-5.50%	06/01/2013	67,120		9,630	57,490
Safe road bonds	2006	3.00%-5.00%	06/01/2025	317,560		1,185	316,375
Total general obligation bonds				447,995		18,150	429,845
Bond premium				30,014		2,000	28,014
Total general obligation bonds payable net of premium				478,009		20,150	457,859
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75%-5.00%	06/01/2016	$ -	$ 75,970	$ -	$ 75,970
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00%-5.00%	06/01/2016		33,190		33,190
Total revenue notes payable					109,160		109,160
Premium					3,683	244	3,439
Total revenue notes payable net of premium					112,843	244	112,599
Claims and judgments				9,194	630	3,774	6,050
Compensated absences				76,609	945	6,696	70,858
Total long-term obligations				$ 563,812	$114,418	$ 30,864	$ 647,366

(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments require that debt service on the bonds be paid from the State Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding above.

Surface Transportation Improvement Special Obligation Notes are authorized under Chapter 17, Article 17A of the Code of West Virginia, 1931, as amended. The Code provides for the issuance of special obligation notes to facilitate the construction of highways, secondary roads and bridges to be funded wholly or in part by federal dollars and in anticipation of reimbursement from such sources. The federal legislation that enables reimbursement of such costs is included in Title 23, Section 122. The Memorandum of Agreement executed between the Federal Highway Administration and the Division of Highways documents the procedures for managing the stewardship and oversight of highway projects that are financed with the proceeds of these notes.

Debt service expenditures for debt service funds included interest of $23,437 for the year ended June 30, 2007. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and liquidated through debt service funds, are as follows:

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	$ 49,993	$ 49,996	$ 49,995	$ 49,993	$ 49,995	$ 173,069	$ 117,578	$ 70,545	$ 611,164
Total general obligation bonds	49,993	49,996	49,995	49,993	49,995	173,069	117,578	70,545	611,164
Less: interest	21,338	19,911	18,405	16,828	15,130	54,214	29,023	6,470	181,319
Total principal	28,655	30,085	31,590	33,165	34,865	118,855	88,555	64,075	429,845
Bond Premium	1,941	1,886	1,633	1,586	1,546	7,470	7,470	4,482	28,014
Total principal and bond premium	$ 30,596	$ 31,971	$ 33,223	$ 34,751	$ 36,411	$ 126,325	$ 96,025	$ 68,557	$ 457,859
Revenue notes payable from federal aid revenue: Surface transportation special obligation notes	$ 14,744	$ 14,749	$ 14,745	$ 14,749	$ 14,750	$ 58,981			$ 132,718
Total surface transportation special obligation notes	14,744	14,749	14,745	14,749	14,750	58,981			132,718
Less: interest	4,459	4,199	3,740	3,244	2,750	5,166			23,558
Total principal	10,285	10,550	11,005	11,505	12,000	53,815			109,160
Premium	383	382	382	382	382	1,528			3,439
Total principal and note premium	$ 10,668	$ 10,932	$ 11,387	$ 11,887	$ 12,382	$ 55,343			$ 112,599

(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The portion of long-term and short-term compensated absences, claims payable, and general obligation bonds are as follows:

	Compensated Absences	Claims and Judgments	General Obligation Bonds, Revenue Notes and Premium	Total
Short-term liability	$ 19,171	$ 630	$ 41,264	$ 61,065
Long-term liability	51,687	5,420	529,194	586,301
	$ 70,858	$ 6,050	$ 570,458	$ 647,366

During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue $550,000 of general obligation bonds to fund highway and road construction projects known as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of $220,000 were issued during July 1998; $110,000 were issued during July 1999; $110,000 were issued during July 2000; and an additional $110,000 were issued during July 2001.

In 2005, the State refinanced part of the above mentioned bonds in the amount of $321,405. These bonds will be repaid from revenues of the State Road Fund through the year 2025.

During the year ended June 30, 2007, The State was authorized by constitutional amendment to issue $200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of $76,000 were issued during October 2006 and $33,000 were issued during April 2007. It is anticipated that approximately $91,000 of additional Garvee notes will be issued during the fiscal year ending June 30, 2008.

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

(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The following summarizes the estimated claims liability for the current year and that of the preceding two years.

	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2005
Estimated claims liability, July 1	$ 9,194	$ 6,197	$ 8,700
Additions for claims incurred during the year	630	3,094	1,200
Changes in estimates for claims of prior periods	(3,630)	300	(3,287)
Payments on claims	(144)	(397)	(416)
Estimated claims liability, June 30	$ 6,050	$ 9,194	$ 6,197

At June 30, 2007, approximately $14,032 of tort claims and $18,774 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of $6,050, recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately $630. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Division's unfunded obligation of approximately $8,558 arising in connection with legislation to fund portions of employee postemployment health insurance costs for retired employees. These liabilities are generally liquidated by the State Road Fund.

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. These liabilities are generally liquidated by the State Road Fund. Expenditures during the year ended June 30, 2007 for health care premiums for 509 retirees were approximately $2,038.

NOTE 10 - RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Division enters into certain transactions with various agencies of the State of West Virginia. The following summarizes the nature and terms of the most significant transactions:

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire December 31, 2007 for rental payments of approximately $2.0 million annually. Management expects the leases to be renewed upon expiration.

- The Division's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2007 the Division incurred payroll related expenditures of approximately $30,976 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $16,653 in employer matching contributions to the State Public Retirement System.

- The Division was insured under the West Virginia Workers' Compensation Division until January 1, 2006. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process. During the year ended June 30, 2007 the Division paid approximately $9,431 to BrickStreet Insurance Company for coverage.

- The Division made payments to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately $5,481 during the year ended June 30, 2007.

- The Division made payments to the Public Service Commission for weight enforcement duties. These expenditures, which were authorized by the Legislature, amounted to approximately $4,667 during the year ended June 30, 2007.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated $655,316 at June 30, 2007.

The Division 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 Division expects such amounts, if any, to be immaterial to the financial position of the Division. The Division records these disallowed audit adjustments for questioned costs in the period the audit is finalized.

Based on the Division's Inspection Program the Division has reviewed the information on obsolete and deficient bridges. The Division is concerned about safety and tries to prioritize bridges for repair and replacement based on engineering assessments. The Division's long range plans to address this issue will be impacted by actions that may be taken by both the federal and state government, including funding levels provided for this purpose.

NOTE 12 - RETIREMENT PLAN

PLAN DESCRIPTION - The Division 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. Chapter 5, Article 10 of the West Virginia State 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. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Division's contribution of 10.5% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were $16,653, $16,559, and $17,450, respectively, equal to the required contributions for each year.

NOTE 13 - RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA), to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. BrickStreet Insurance, a private mutual insurance company, provided coverage for work related accidents. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 9, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 9.

Through its participation in the PEIA, the Division has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Division has transferred its risks related to health coverage. PEIA issues publicly available financial reports that include financial statements and required supplementary information, these reports may be obtained by writing to PEIA.

NOTE 14 - SUBSEQUENT EVENTS

The Division of Highways is expected to issue revenue notes in the amount of $91 million in February 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue and are the third issue of the Surface Transportation Improvements Special Obligation Notes.

COMPLIANCE AND INTERNAL CONTROL REPORT

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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*

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation, Division of Highways basic financial statements and have issued our report thereon dated November 16, 2007. 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 Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2007-1 through 2007-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as items 2007-1 through 2007-4.

This report is intended for the information of the audit committee, management of the West Virginia Department of Transportation, Division of Highways and the Joint Committee on Government and Finance and is not intended to be and should not be used by anyone other than those specified parties.

Hayflich & Steinberg, CPA's, PLLC

November 16, 2007

2007-1 Information Systems Controls

Criteria: The management of the Division is responsible for establishing and maintaining adequate information systems internal controls over financial reporting. Furthermore, an integral part of an entity's internal control structure is the effective segregation of duties, which involves assigning responsibilities for authorizing transactions, recording transactions and maintaining custody of assets to different individuals, thus reducing the risk of errors or fraud occurring and not being detected. Additionally, the Division entered into an agreement with the West Virginia Office of Technology (OT) dated February 1, 2007, pursuant to West Virginia Code Article 6 Chapter 5A, OT is to provide the Division with an standardized technology infrastructure from a centrally-managed technology infrastructure support organization. The expected benefit is a decline in technology cost, network and system availability is expected to improve, and security risks to diminish. Although the Division and West Virginia Code outsourced the technology infrastructure of the Division to OT the Division retains the final responsibility for establishing and maintaining adequate information systems internal controls over financial reporting.

Condition: The Division operates a wide variety of computer applications, many of which affect federal and state programs' data. During our review of the information systems controls we noted the following:

- Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Division had a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Division's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Division. By completing this review, the Division will have assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Division has not had a code review on all online/e-commerce applications utilized by the Division. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Division. (Noted in prior year)

- Programmers in the Division's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Noted in the prior year)

- The Division's Information Services Department is not notified immediately upon the termination of employees. Lack of notification to the Information Services Department in a timely basis increases the risk of unauthorized access to the information systems and data. Furthermore, the Division maintains several user accounts which are not for specific employees of the Division. (Noted in the prior year)

Context: Information systems controls potentially can affect all federal and state programs and are critical to the daily operations of the Division.

Cause: Policies and procedures have not been adequately updated and information system controls may have not been monitored by the Division.

2007-1 Information Systems Controls (Continued)

Effect: Unauthorized use and/or access to critical information systems may occur and not be detected.

Recommendation: We recommend the following:

- The Division should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Division complete a code review on all online/e-commerce applications. Both of these reviews could be conducted under a statewide contract that is currently in place with IS&C. Furthermore, we recommend that the Division develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Division.

- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. The policies and procedures should address controls over development, testing, security, compiling, or moving of programs to the production environment. The Division should institute a formal programming policy, procedure, and project management process that provides controls that cover the necessary review of all aspects of the programming function both internally and at vendors used to develop programs and web based applications. If access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.

- The Division should establish policies and procedures to ensure that the Information Services Department is notified immediately of all employee terminations. The Division should also identify and document user accounts not utilized by employees but need within the servers, such as application and system accounts. User accounts deemed as unnecessary should be disabled or removed.

Management Response: **Agree:** *The internal network is undergoing a multitude of changes including migration from the legacy DOT Microsoft Domain to the consolidated Executive Domain, network backbone infrastructure upgrades and upgrades to the Wide Area Network. The migration to the Executive Domain is expected to be completed by the second quarter 2008. Once the new infrastructure is in place, a vulnerability assessment will be conducted. DOT and Office of Technology (OT) will work together to determine if the assessment can be accommodated through OT or whether a third party will be engaged.*

2007 – 2 Land and Leases

Criteria: Section 157-2-8 of the West Virginia Code sets forth various requirements regarding land and lease issues. West Virginia Code sections 17-2A-19, 5A-8-9, and 12-2-2 also address various criteria to be followed by the State regarding land and lease issues.

Condition: We noted several issues relating to land and leases, including the following:

- There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further, although the Division has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances.
- There is no system to readily track leases or other property maintained by the Division.
- We noted that the one right of way auction there was no indication the sale was properly recorded in accounting due to the Right of Way division controlling the accounting instead of finance.
- We noted that the one right of way auction had not been removed from the records in a timely fashion due to a conflict as to where the sales proceeds should be applied.

Context: The total land and land improvements on the financial statement is approximately $20.4 million as of June 30, 2007.

Cause: Management of the Division has extended authority to the districts and has not maintained controls of the record keeping within the division or at the district locations.

Effect: The lack of controls and poor record keeping could result in errors, irregularities or abuses that are not detected.

Recommendation: We recommend that the Division develop policies and procedure to establish sound record keeping and internal controls to address the issues noted above.

Management Response: **Agree:** *The Division had two presentations by outside vendors for a right of way tracking system during the past six months. The systems presented would allow for a complete tracking of the right of way process per parcel, project, and even individuals assigned. The Right of Way Division's proposed budget for FY 2008 included a line item for a similar system. Should this be approved a request for proposal and bidding process would be started.*

Districts are now submitting quarterly reports to allow central office to track acquisitions, sales and leases. The Division is currently working on developing our own system to track leases.

2007 – 2 Land and Leases (Continued)

The subject property and structure were acquired for Highway Project APD-0484(115), Parcel 28 – Hardy County. The property was purchased as an uneconomic remnant from the owners. Being the property and structure were not needed for highway purposes, the district requested a Property Management authorization to auction the property and structure. Therefore, the Chief of Federal Aid (Right of Way) asked FHWA whether the sale should be credited to the statewide sale of federal-aid excess property or the APD project. The property was removed from the records as soon as response was given.

The Division will review its' current policies and procedures and make recommendations to establish sound record keeping and internal controls.

2007 – 3	Notice to Proceed - Utility Delays
Criteria:	The management of the Division is responsible for establishing and maintaining adequate controls related to issuing a formal "notice to proceed" stipulating the date on which it is expected that a contractor should begin work on an awarded contract.
Condition:	We reviewed contract jobs awarded during the fiscal year ended June 30, 2007 and noted the following: • There were fifteen instances identified where contractors were provided with a formal notice to proceed prior to securing proper authorizations to proceed from utility companies resulting in idle equipment rental charges from the contractors.
Context:	The total amount of contracted awards for the year ended June 30, 2007 wa s approximately $713.3 million.
Cause:	Utility companies failed to relocate utilities in accordance with dates prescribed in awarded contracts.
Effect:	The lack of controls could result in significant idle equipment rental charges.
Recommendation:	We recommend that the Division develop policies and procedures to eliminate its possible exposure to idle equipment rental charges.
Management Response:	**Agree:** *The projects in question were designed and programmed prior to the acceptance of the compromise bill. A delay in the advertisement of these projects placed them in lettings after agreements had been made. The DOH failed to follow policies and procedures by not reviewing the Utility Status Dates in the contracts and by not requesting the Utilities to review and revise the dates they provided. By following the current policies and procedures, the DOH should eliminate its exposure to idle equipment charges due to Utility Delays.*

2007 – 4	Payroll Authorization Procedures
Criteria:	The management of the Division is responsible for establishing and maintaining adequate controls related to the approval of payroll for employees of the Division.
Condition:	We reviewed individual employee payroll cash disbursements during the fiscal year ended June 30, 2007 and noted the following: • There were 16 instances identified in which there was no approval of the daily time sheet. • There were 4 instances in which the annual leave form was not approved by a supervisor.
Context:	Total payroll expense for fiscal year ended June 30, 2007 was approximately $164 million.
Cause:	The Division appears to have sound policies and procedures in place for the approval of individual employee pay but has failed to actively enforce the procedures.
Effect:	Amounts claimed as compensation may not be indicative of the actual hours worked.
Recommendation:	We recommend that the Division enforce and monitor existing payroll authorization procedures.
Management Response:	**Agree:** *The Division's managerial staff will stress to our supervisory staff the importance of this functional control. It is certainly management intent to have all employees accountable for all payroll related matters.*