

**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, 2010  
AND  
INDEPENDENT AUDITORS' REPORTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

YEAR ENDED JUNE 30, 2010

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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 (the Division), as of and for the year ended June 30, 2010, which collectively comprise the Division's financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

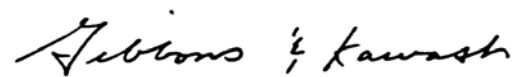
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that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

As discussed in Note 1, the financial statements of the Division 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. 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, 2010 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 financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways as of June 30, 2010, 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 our report dated November 12, 2010, on our consideration of the Division's 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 on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Gibbons & Kawash".

November 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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, 2010. This section introduces the 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 \$7.53 billion as of the close of fiscal year 2010.

*Changes in Net Assets* - During the year the Divisions' Net Assets increased \$176 million or 2.39%. This percentage of increase is a slight increase from the prior year, when Net Assets increased \$160 million or 2.22%.

*Revenues and Expenses* - Total revenues increased by \$86 million or 7.48%. Total expenses increased \$70 million or 7.07%. 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 2010, the Division's governmental funds reported combined total fund equity of \$235 million, a decrease of \$66 million in comparison with the restated prior year balance.

*Long-term Debt* - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$33 million during the current fiscal year. The Division's total outstanding special obligation notes, net of note premium, decreased by \$22 million decreasing total long-term debt by 9.78% during the current fiscal year.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the Division's financial statements. The Division's 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 are 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.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Unaudited

**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, 2010 and 2009 (amounts in thousands).

**Net Assets as of June 30**

	2010	2009	% Change
Total current assets	\$ 365,756	\$ 388,892	-5.95%
Capital assets, net of accumulated depreciation	7,852,616	7,656,377	2.56%
Other non-current assets	2,378	2,694	-11.73%
Total assets	8,220,750	8,047,963	2.15%
Total current liabilities	160,055	144,717	10.60%
Long term liabilities	532,935	551,139	-3.30%
Total liabilities	692,990	695,856	-0.41%
Invested in capital assets, net of related debt	7,358,147	7,144,763	2.99%
Restricted	17,035	18,119	-5.98%
Unrestricted	152,578	189,225	-19.37%
Total net assets	\$ 7,527,760	\$ 7,352,107	2.39%

The largest component (97.75%) 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 have constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

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Unaudited

**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):

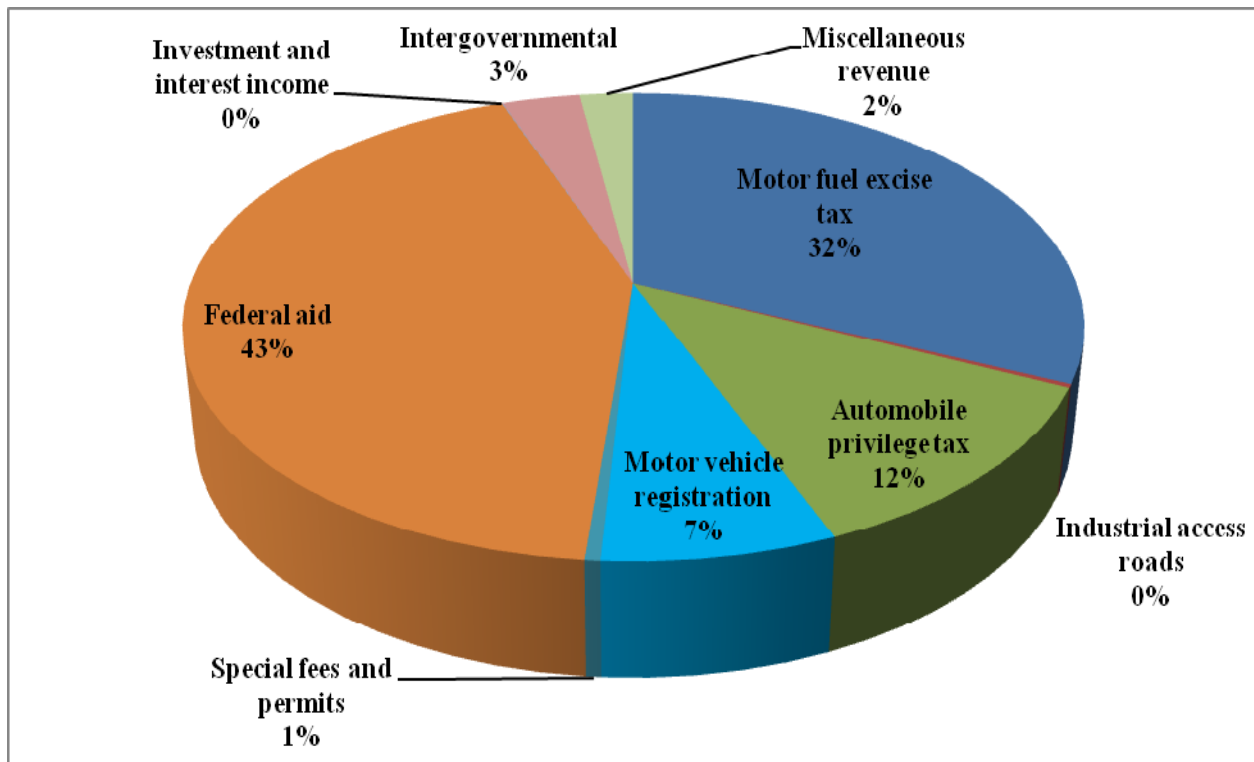
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
<b>Revenues</b>			
Taxes	\$ 541,023	\$ 533,833	1.35%
Investment and interest income	(457)	1,919	-128.81%
Intergovernmental	41,318	27,924	49.97%
Miscellaneous revenues	<u>25,012</u>	<u>28,647</u>	-12.69%
Total general revenues	<u>606,896</u>	<u>592,323</u>	2.46%
Capital grants and contributions	535,020	463,790	15.36%
Charges for service	<u>93,393</u>	<u>93,213</u>	0.19%
Total program revenues	<u>628,413</u>	<u>557,003</u>	12.82%
Total revenues	<u>1,235,309</u>	<u>1,149,326</u>	7.48%
<b>Expenses</b>			
Road maintenance	411,816	464,083	-11.26%
Other road operations	522,766	425,687	22.81%
General and administration	99,118	73,854	34.21%
Interest on long-term debt	22,514	22,730	-0.95%
Unallocated depreciation	<u>3,442</u>	<u>3,364</u>	2.32%
Total expenses	<u>1,059,656</u>	<u>989,718</u>	7.07%
Change in net assets	175,653	159,608	10.05%
Net assets, beginning	<u>7,352,107</u>	<u>7,192,499</u>	2.22%
Net assets, ending	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	2.39%

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 \$176 million or 2.39% percent.



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The following chart depicts the revenues of the Division for the fiscal year ended June 30, 2010.



Total revenues increased by approximately \$86 million. Total tax revenues increased by approximately \$7 million. Federal aid revenue increased by approximately \$71 million or 15.46%. The following summarizes revenues for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 393,557	\$ 391,903	\$ 1,654	0.42%
Industrial access roads	3,000	3,010	(10)	-0.33%
Automobile privilege tax	147,466	141,930	5,536	3.90%
Motor vehicle registration fees	87,600	87,255	345	0.40%
Special fees and permits	5,793	5,958	(165)	-2.77%
Federal aid	532,020	460,780	71,240	15.46%
Investment and interest income	(457)	1,919	(2,376)	-123.81%
Intergovernmental	41,318	27,924	13,394	47.97%
Miscellaneous revenues	25,012	28,647	(3,635)	-12.69%
	<u>\$ 1,235,309</u>	<u>\$ 1,149,326</u>	<u>\$ 85,983</u>	7.48%

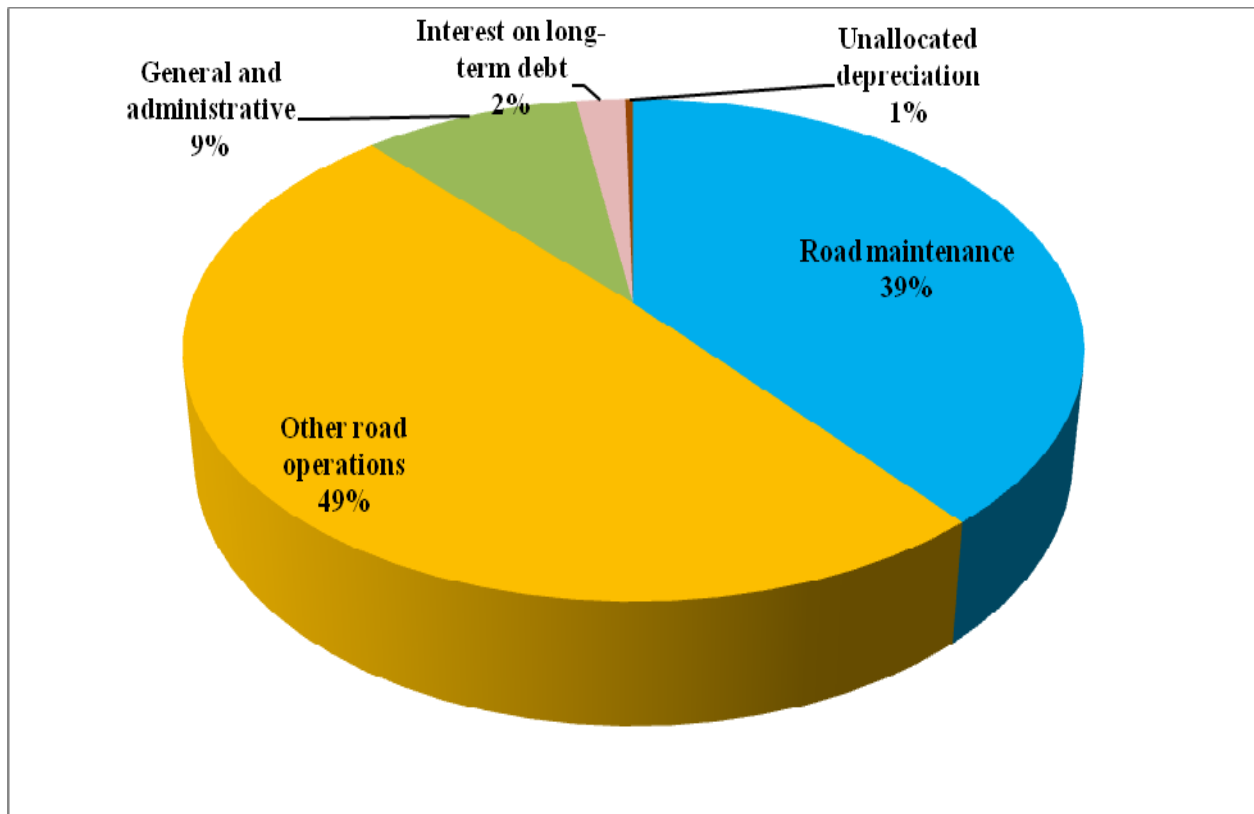
The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration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

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The lingering effects of the recession continue to impact State Road Fund tax revenue collections in FY2010. Reported on a cash basis, the revenues were only \$1.72 million (.27%) higher than in FY2009. Sales (Privilege) Tax collections continued to lag significantly; \$12.24 million (7.62%) below estimates and \$2.48 million (1.64%) below FY2009 revenues. Registration Fees were \$2.02 million below estimates and \$2.04 million (2.28%) below FY2009 revenues. The one revenue source that appeared to weather the recession successfully was the Motor Fuel Excise Tax. That revenue exceeded estimates by \$10.92 million (2.87%) and was \$6.38 million (1.66%) above FY2009 revenues. The overages in Motor Fuel Excise Tax revenue, however, were not able to completely offset the shortages reported in the other revenue sources. Overall, FY2010 tax revenues were \$3.49 million (.55%) below estimates. In FY2011, minimal revenue growth is expected. As a result, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future, and it is possible that some programs may be reduced.

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 2010 were authorized under the Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the American Recovery and Reinvestment Act of 2009.

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



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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Total expenses increased by approximately \$70 million or 7.07%. The following summarizes expenditures for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Road maintenance	\$ 411,816	\$ 464,083	\$ (52,267)	-11.26%
Other road operations	522,766	425,687	97,079	22.81%
General and administration	99,118	73,854	25,264	34.21%
Interest on long-term debt	22,514	22,730	(216)	-0.95%
Unallocated depreciation	3,442	3,364	78	2.32%
	<u>\$ 1,059,656</u>	<u>\$ 989,718</u>	<u>\$ 69,938</u>	7.07%

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 (SRIC) that is required in a given year. In FY 2010, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

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, 2010, the Division reported fund balances of approximately \$235 million. Of this total amount, \$180 million, 76.6%, constitutes unassigned fund balance, which is available for the general purposes of the funds. The remainder of fund balance is restricted for capital projects and nonspendable as it 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 2010 fiscal year, unassigned fund balance of the General Fund was \$180 million and nonspendable fund balance was \$37 million. The total General Fund balance decreased \$27 million over the prior year restated general fund balance during the year primarily due to increases in fiscal year 2010 federal aid program expenditures.

**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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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year. The Division sold \$77 million in GARVEE notes during the fiscal year ended June 30, 2009. Those GARVEE note sales were for the construction of portions of the US Route 35 corridor. At June 30, 2010 the capital projects balance of approximately \$18 million represented unexpended note funds associated with the 2009A note issue.

**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. Due to the faltering economy, individuals and businesses continued, in FY2010, to delay vehicle/fleet purchases. Many of the vehicles that were purchased are more fuel-efficient, which will reduce fuel consumption and impact future revenue collections. The following table summarizes tax and fee collections for FY 2010 and FY 2009.

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise and wholesale fuel	\$ 393,557	\$ 391,903	\$ 1,654	0.42%
Motor vehicle registration	87,600	87,255	345	0.40%
Privilege tax	147,466	141,930	5,536	3.90%
	<u>\$ 628,623</u>	<u>\$ 621,088</u>	<u>\$ 7,535</u>	1.21%

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. West Virginia Senate Bill 4004 passed on November 20, 2009, and established the base average wholesale price of motor fuel at \$2.34 and included a provision that on and after January 1, 2011, the average wholesale prices shall not vary more than 10% from the average wholesale price of motor fuel as calculated by the Tax Commissioner for the previous calendar year. This will eliminate the large swings in the variable component of the motor fuel tax rate that have occurred in recent years as oil prices have fluctuated wildly. That same legislation removed the requirement that the legislature had to renew every six years the \$.05 flat tax rate increase enacted in 1993.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2010 was \$495.27 million, 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):

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	2010	2009	Increase (Decrease)	% Increase (Decrease)
Federal reimbursement - Budgeted funds	\$ 494,588	\$ 441,658	\$ 52,930	11.98%
Federal reimbursement - Surface Transportation	27,591	14,692	12,899	87.80%
Federal reimbursement - Emergency funds	9,842	4,430	5,412	122.17%
<b>Total Federal Aid</b>	<b>\$ 532,021</b>	<b>\$ 460,780</b>	<b>\$ 71,241</b>	<b>15.46%</b>

SAFETEA-LU expired in August 2009, and Congress has yet to pass the next six-year federal highway funding authorization. Consequently, the Division is receiving its obligation authority through continuing resolutions. This will not have any immediate impact on budgets but could eventually lead to a reduction in expenditures due to the Division's reduced funding authority.

State revenues are projected to grow minimally over the next five years and will be unable to keep pace with increases in operating costs. Projected revenues will not enable the Division of Highways to maintain the state's roads and bridges at acceptable levels; paving and small bridge repair and replacement expenditures will be reduced in future years. Eventually, other areas of expenditures also will need to be reduced to maintain a fiscally sound fund equity balance.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

##### **Capital Assets**

As of June 30, 2010, the Division had invested \$7.85 billion, net of accumulated depreciation, in a range of capital assets (see note 8 for additional details). Depreciation charges for the fiscal year totaled \$314 million.

The \$196 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 \$293 million in depreciation of the infrastructure. The Division expended \$560 million dollars during the year ended June 30, 2010 for additions to capital assets. Of this amount, \$477 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 \$391 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 and Grant Counties, upgrade of WV 9 in the Eastern Panhandle, upgrade of US Route 35 in Putnam county, preservation projects on Interstates 64 and 70, and construction on WV 2, WV 10, Coalfields Expressway, and King Coal Highway, 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, 2010, the Division had \$340 million in outstanding bonds. The amount outstanding decreased by \$31 million or 8.51% due to net principal payments.

The Division has also 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, \$33 million in April 2007, and \$77 million during fiscal year 2009. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2010, the Division had \$144 million in outstanding revenue notes. The amount decreased by \$21 million or 12.62% due to net principal payments.

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Unaudited

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: AAA Moody's: Aaa S&P: AAA	\$ 36,025
Safe Roads 01A - Bonds maturing between June 1, 2007 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	25,595
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	277,895
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008, Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	53,935
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008, Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	23,385
Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) - Notes Maturing on or before June 1, 2016	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	66,995
			\$ 483,830

More detailed information regarding capital asset and long-term debt activity is included in the notes 8 and 10, 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, 2010  
(amounts expressed in thousands)

<b>ASSETS</b>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 191,750
Accounts receivable, net	78,697
Taxes receivable	55,834
Due from other State of West Virginia agencies	2,318
Inventories	37,157
Total current assets	<u>365,756</u>
Non-current assets:	
Capital assets not being depreciated	
Land - non-infrastructure	15,477
Land - infrastructure	928,577
Construction in progress	1,117,065
Capital assets net of accumulated depreciation:	
Land improvements	6,606
Buildings	69,816
Furniture and fixtures	596
Rolling stock	75,455
Scientific equipment	635
Shop equipment	58
Roads	3,745,318
Bridges	1,893,013
Total capital assets	<u>7,852,616</u>
Other non-current assets	<u>2,378</u>
Total non-current assets	<u>7,854,994</u>
Total assets	<u>8,220,750</u>

(Continued)



	<u>Governmental Activities</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	57,805
Retainages payable	4,985
Accrued payroll and related liabilities	19,507
Due to other State of West Virginia agencies	3,333
Accrued interest payable	3,572
Current maturities of long-term obligations	70,853
Total current liabilities	<u>160,055</u>
Non-current liabilities	
Claims and judgments	16,920
Compensated absences	16,152
Other post employment benefits	44,656
Long-term debt obligations	455,207
Total non-current liabilities	<u>532,935</u>
 Total liabilities	 <u>692,990</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	7,358,147
Unrestricted	152,578
Restricted	
Coal resource	7,474
Waste tire	2,363
Industrial access	7,198
 Total net assets	 <u><u>\$ 7,527,760</u></u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	\$ 319,219	\$ -	\$ -	\$ (319,219)
Contract paving and secondary roads	62,542	-	-	(62,542)
Small bridge repair & replacement	10,416	-	-	(10,416)
Litter control program	1,688	-	-	(1,688)
Depreciation	17,951	-	-	(17,951)
Other road operations				
Interstate highways	86,148	-	112,435	26,287
Appalachian highways	5,482	-	81,840	76,358
Other federal aid programs	129,913	-	337,745	207,832
Non federal aid improvements	5,500	-	-	(5,500)
Industrial access roads	3,121	-	3,000	(121)
Depreciation	292,602	-	-	(292,602)
General and administrative				
Support and administrative operations	55,956	5,793	-	(50,163)
Claims	11,172	-	-	(11,172)
Cost associated with DMV	31,990	87,600	-	55,610
Interest on long-term debt	22,514	-	-	(22,514)
Unallocated depreciation	3,442	-	-	(3,442)
	<u>\$ 1,059,656</u>	<u>\$ 93,393</u>	<u>\$ 535,020</u>	<u>\$ (431,243)</u>
General revenues				
Taxes:				
				\$ 393,557
				147,466
				(457)
				41,318
				25,012
				<u>606,896</u>
				175,653
				7,352,107
				<u>\$ 7,527,760</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 171,413	\$ 20,337	\$ 191,750
Receivables	78,697	-	78,697
Taxes receivable	55,834	-	55,834
Due from other funds	6,430	-	6,430
Due from other State of West Virginia agencies	2,318	-	2,318
Inventories	37,157	-	37,157
Total assets	<u>\$ 351,849</u>	<u>\$ 20,337</u>	<u>\$ 372,186</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 55,637	\$ 2,168	\$ 57,805
Retainages payable	4,985	-	4,985
Accrued payroll and related liabilities	19,507	-	19,507
Other post employment benefits	44,656	-	44,656
Due to other funds	6,289	141	6,430
Due to other State of West Virginia agencies	3,333	-	3,333
Total liabilities	<u>134,407</u>	<u>2,309</u>	<u>136,716</u>
Fund balances			
Nonspendable	37,157	-	37,157
Restricted for capital projects by trust indenture	-	18,028	18,028
Unassigned	180,285	-	180,285
Total fund balances	<u>217,442</u>	<u>18,028</u>	<u>235,470</u>
 Total liabilities and fund balances	 <u>\$ 351,849</u>	 <u>\$ 20,337</u>	 <u>\$ 372,186</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010  
(amounts expressed in thousands)

Total fund balances - governmental funds	\$	235,470
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Amounts reported for governmental activities in the statements of net assets and different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets not being depreciated:

Land - non-infrastructure	\$	15,477
Land - infrastructure		928,577
Construction in progress		1,117,065

Capital assets net of accumulated depreciation:

Land improvements		6,606
Buildings		69,816
Furniture and fixtures		596
Rolling stock		75,455
Scientific equipment		635
Shop equipment		58
Roads		3,745,318
Bridges		<u>1,893,013</u>
		7,852,616

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.		2,378
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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		(3,572)
Claims and judgments		(18,485)
Compensated absences		(28,150)
General obligation bonds and revenue notes		<u>(512,497)</u>
		<u>(562,704)</u>

Net assets of governmental activities	\$	<u>7,527,760</u>
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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
<b>Revenues</b>			
Taxes			
Gasoline and motor carrier	\$ 393,557	\$ -	\$ 393,557
Automobile privilege	147,466	-	147,466
Industrial access roads	3,000	-	3,000
License, fees and permits			
Motor vehicle registrations and licenses	87,600	-	87,600
Special fees and permits	5,793	-	5,793
Federal aid			
Interstate highways	112,435	-	112,435
Appalachian highways	81,840	-	81,840
Other federal aid programs	310,155	27,591	337,746
Investment and interest income, net of arbitrage rate	510	(967)	(457)
Intergovernmental	41,520	(202)	41,318
Miscellaneous revenues	25,012	-	25,012
	1,208,888	26,422	1,235,310
<b>Expenditures</b>			
Current:			
Road maintenance:			
Expressway, trunkline and feeder, state and local services	318,389	-	318,389
Contract paving and secondary roads	62,542	-	62,542
Small bridge repair and replacement	27,638	-	27,638
Litter control program	1,688	-	1,688
Support and administrative operations	96,251	-	96,251
Division of motor vehicle operations	31,990	-	31,990
Claims	497	-	497
Capital outlay and other road operations:			
Road construction and other road operations:			
Interstate highways	125,499	-	125,499
Appalachian highways	102,626	-	102,626
Other federal aid programs	389,235	37,745	426,980
Nonfederal aid construction and road operations	26,714	-	26,714
Industrial access roads	3,121	-	3,121
Debt service:			
Bond issue cost	4	-	4
Principal	31,590	20,845	52,435
Interest	18,388	6,746	25,134
	1,236,172	65,336	1,301,508
Deficiency of revenue under expenditures	(27,284)	(38,914)	(66,198)
Fund balances, beginning of year (previously reported)	258,826	56,942	315,768
Prior period adjustment	(14,100)	-	(14,100)
Fund balances, beginning of year (restated)	244,726	56,942	301,668
Fund balances, end of year	\$ 217,442	\$ 18,028	\$ 235,470

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2010  
 (amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ (66,198)

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 \$510,745 exceeded depreciation of (\$313,995) in the current period. 196,750

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. (513)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets. 52,435

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 increase in claims of \$(10,676) amortization of bond issue cost of \$(316) and decrease in interest payable of \$288, exceed the decrease in compensated absences \$1,228 and the accretion of bond premium of \$2,655. (6,821)

Change in net assets of governmental activities \$ 175,653

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, 2010  
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>					
<b>Taxes</b>					
Gasoline and motor carrier	\$ 380,000	\$ -	\$ 380,000	\$ 390,916	\$ 10,916
Automobile privilege	160,550	-	160,550	148,314	(12,236)
Motor vehicle registrations and license:	89,407	-	89,407	87,388	(2,019)
Revenue transfer to industrial access roads:	(3,000)	-	(3,000)	(3,000)	-
Federal aid	684,087	-	684,087	495,266	(188,821)
Miscellaneous revenues	36,199	23,478	59,677	56,083	(3,594)
	<u>1,347,243</u>	<u>23,478</u>	<u>1,370,721</u>	<u>1,174,967</u>	<u>(195,754)</u>
<b>Expenditures</b>					
<b>Road construction and other road operations</b>					
Interstate highways	115,000	-	115,000	89,665	25,335
Appalachian highways	112,000	-	112,000	95,718	16,282
Other federal aid programs	350,700	-	350,700	300,635	50,065
Nonfederal aid construction	32,000	-	32,000	26,213	5,787
Federal economic stimulus	204,572	-	204,572	108,128	96,444
<b>Road maintenance</b>					
Maintenance	309,184	20,000	329,184	319,530	9,654
Contract paving and secondary roads	40,000	27,319	67,319	55,390	11,929
Small bridge repair and replacement	33,500	-	33,500	28,311	5,189
Litter control program	1,691	-	1,691	1,691	-
<b>Support and administrative operations</b>					
General operations	56,500	-	56,500	30,178	26,322
Equipment revolving	20,000	-	20,000	14,531	5,469
Inventory revolving	4,000	-	4,000	(4,009)	8,009
Debt service	50,000	-	50,000	49,969	31
DMV operations	37,481	-	37,481	31,464	6,017
Claims - DOH and DMV	509	-	509	509	0
	<u>1,367,137</u>	<u>47,319</u>	<u>1,414,456</u>	<u>1,147,923</u>	<u>266,533</u>
Excess (deficiency) of revenues over expenditure:	(19,894)	(23,841)	(43,735)	27,044	70,779
Fund balance, beginning of year	<u>98,419</u>	<u>29,492</u>	<u>127,911</u>	<u>127,911</u>	<u>-</u>
Fund balance, end of year	<u>\$ 78,525</u>	<u>\$ 5,651</u>	<u>\$ 84,176</u>	<u>\$ 154,955</u>	<u>\$ 70,779</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

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, 2010 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.



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

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 \$17,035 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, 2010, has been reported only in the government-wide financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

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. Any employee who retires, however, may convert any unused accumulated sick leave to increase service credits for retirement purposes. Additionally, certain employees may choose to apply any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium in lieu of increasing their service credits. Those employees cannot split their unused leave between the two options.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated 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, 2010 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2010  
 (amounts expressed in thousands)

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 in accordance with accounting principles generally accepted in the United States of America 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, 2010, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$	27,044
Basis of accounting differences (budgetary to GAAP)		(60,279)
Unbudgeted funds		5,951
Deficiency of revenues under expenditures - GAAP basis	\$	(27,284)

**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 "Nonspendable" in accordance with GASB Statement No. 54 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

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. Buildings 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 3 - 20 years
- Scientific equipment 3 - 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 motor fuel excise 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.

**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. The Legislation allows regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**POSTEMPLOYMENT BENEFITS** – For employees hired prior to July 1, 2001, any unused 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, based on hire dates, periods of service and benefit amendments. To the extent that eligible conversion and retirement benefits are determined, a liability in the governmental fund financial statements has been accrued as a result of the Division’s participation in the State’s post-employment benefits plan, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 14.

**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.

**INTERGOVERNMENTAL REVENUE** - Intergovernmental revenue represents legally authorized appropriations under West Virginia State Code by the West Virginia Legislature.

**NET ASSETS** - As required by GASB Statement No. 34, the Division displays net assets in the government-wide financial statements in three components: invested in capital assets, net of related debt; restricted, and unrestricted.

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

**RESTRICTED NET ASSETS** - Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the Division’s ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Division’s policy to use restricted resources first, then unrestricted resources as needed.

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

**FUND BALANCE** - In accordance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* the Division has classified in the governmental fund financial statements its fund balances in the following categories: nonspendable, restricted, committed, assigned and unassigned as applicable.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The restricted fund balance classification includes amounts restricted for use to specific purposes including externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; imposed by law through constitutional provisions, or enabling legislation including *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed amounts reported in fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the West Virginia State Legislature. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The Division has no committed fund balances at June 30, 2010.

Amounts that are constrained by the Division's *intent* to be used for specific purposes as expressed by the West Virginia State Legislature or budget and or finance officers of the Division to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. The Division has no assigned fund balances at June 30, 2010.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Division considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; and committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NEWLY ADOPTED STATEMENTS ISSUED BY THE GASB** - The Division adopted GASB Statement No. 51. *Accounting and Financial Reporting for Intangible Assets*, during the year ended June 30, 2010. 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 was applied in addition to the existing authoritative guidance for capital assets. The adoption of this statement had no impact on the June 30, 2010 financial statements.

The Division adopted GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments can be used as effective risk management or investment tools. Derivative instruments can also expose governments to significant risks and liabilities. The adoption of this statement had no impact on the June 30, 2010 financial statements.

The Division adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The early adoption of this statement changed the terminology used to describe fund balances in the governmental funds and expanded the disclosure of those new definitions in the accompanying notes to financial statements of the Division for the year ended June 30, 2010.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**RECENT STATEMENTS ISSUED BY THE GASB** - The GASB has issued Statement No. 59, *Financial Instruments Omnibus*, the provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Applying the reporting provisions of Statement No. 31 for interest-earning investment contracts to unallocated insurance contracts improves consistency of investment measurements that are reported by pension and other postemployment benefit plans. Emphasizing the applicability of SEC requirements to 2a7-like external investment pools provides practitioners with improved guidance. Limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement No. 53 to certain financial instruments refines which financial instruments are within the scope of that Statement. The Division does not anticipate this Statement to have a significant effect on the financial statements.

NOTE 2: RESTATEMENT OF FUND BALANCE (GOVERNMENTAL FUNDS) - The Division has restated the beginning fund balance of the State Road Fund (the Fund) to account for liabilities of the Fund that were not previously recorded in the Fund for post employment benefits.

	July 1, 2009
Fund balance (as previously reported)	\$ 258,826
Liabilities previously not reported in the fund	(14,100)
Fund balance (as restated)	\$ 244,726

NOTE 3: 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	\$ 17,578	\$ 17,578
Cash on deposit with State Treasurer in Debt Service Fund	26	26
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	138,581	138,581
Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool	15,133	15,133
Cash on deposit with State Treasurer invested in BTI WV Government Money Market Pool - (Garvee 2009A)	20,334	20,334
Cash in transit	98	98
	\$ 191,750	\$ 191,750

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NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

**West Virginia Board of Treasury Investments (BTI) WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool**

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 is 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. Of the BTI’s Consolidated Fund pools which the Division may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool.

**WV Money Market Pool**

*Credit risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2010, the WV Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market 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.

At June 30, 2010, the WV Money Market Pool investments had a total carrying value of \$2,876,711, of which the Division’s ownership represents 4.82%.

**WV Government Money Market Pool**

*Credit risk* - For the year ended June 30, 2010, the WV Government Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV 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.

At June 30, 2010, the WV Government Money Market Pool investments had a total carrying value of \$221,183, of which the Division’s ownership represents 9.19%.



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NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

**WV Short Term Bond Pool**

*Credit risk* – The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A 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 following table provides information on the credit ratings of the WV Short Term Bond Pool’s investments:

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets	
	Moody’s	S&P			
Corporate asset backed securities	Aaa	AAA	24,330	5.37	
	Aaa	NR*	10,353	2.28	
	Aa3	AAA	1,000	0.22	
	**	Ba1	CC	45	0.01
	**	Ba2	BB	219	0.05
	**	B1	BBB	605	0.13
	**	B1	CCC	857	0.19
	**	B2	CCC	366	0.08
	**	B3	B	442	0.10
	**	B3	BBB	247	0.05
	**	B3	CCC	554	0.12
	**	Caa1	CCC	230	0.05
	**	Caa2	CCC	779	0.17
	NR	AAA	3,538	0.78	
Total corporate asset backed securities			43,565	9.60	
Corporate bonds and notes	Aaa	AAA	72,549	16.00	
	Aaa	AA	2,060	0.46	
	Aa1	AA	5,430	1.20	
	Aa2	AA	6,650	1.47	
	Aa3	AA	6,722	1.48	
	Aa3	A	13,850	3.05	
	A1	AA	15,485	3.41	
	A1	A	21,098	4.65	
	A2	A	41,093	9.06	
	A3	A	4,158	0.92	
Total corporate bonds and notes			189,095	41.70	
U.S. agency bonds	Aaa	AAA	40,180	8.86	
U.S. Treasury notes ***	Aaa	AAA	158,423	34.93	
U.S. agency mortgage backed securities ****	Aaa	AAA	4,540	1.00	
Money market funds	Aaa	AAA	17,715	3.91	
			<u>\$ 453,518</u>	<u>100.00%</u>	

\* NR = Not Rated

\*\* These securities were not in compliance with BTI Investment Policy at June 30, 2010. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

\*\*\* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

\*\*\*\* U.S. agency mortgage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2010, the Division’s ownership represents 3.34% of these amounts held by BTI.

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NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

**Interest Rate Risk (Continued)**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All BTI Consolidated Fund pools are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV 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 WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 174,980	1
U.S. Treasury notes	65,153	140
U.S. Treasury bills	476,670	35
Commercial paper	855,844	18
Certificates of deposit	281,000	45
U.S. agency discount notes	606,048	52
Corporate bonds and notes	20,000	19
U.S. agency bonds/notes	246,990	55
Money market funds	150,026	1
	<u>\$ 2,876,711</u>	33

The overall weighted average maturity of the investments of the WV 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 WV Government Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 66,600	1
U.S. Treasury notes	8,526	114
U.S. Treasury bills	29,982	72
U.S. agency discount notes	36,465	115
U.S. agency bonds/notes	79,532	30
Money market funds	78	1
	<u>\$ 221,183</u>	44

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NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

The overall effective duration (overall weighted average maturity in 2009) of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2010:

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ 158,423	583
Corporate notes	189,095	560
Corporate asset backed securities	43,565	679
U.S. agency bonds/notes	40,180	288
U.S. agency mortgage backed securities	4,540	360
Money market funds	17,715	1
	\$ 453,518	530

**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 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 investment in a single corporate issuer. The BTI investment policy prohibits those pools permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or 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 BTI's Statement of Fiduciary Net Assets is invested in the lending 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 holds interests in foreign currency or interests valued in foreign currency.

**Securities Lending**

At June 30, 2010, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, approximately \$133,606 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2010, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. The BTI is exposed to cash reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers. Maturities of investments made with cash collateral are not matched to maturities of securities loaned.

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NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	\$ 79,708	\$ 81,332
WV Short Term Bond Pool	51,473	52,274
	\$ 131,181	\$ 133,606

**Deposits**

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 consisted of the following:

Federal aid billed and not paid	\$ 10,684
Federal aid earned but not billed	57,124
Total federal aid receivable	67,808
Other receivables	11,381
Combined total receivables	79,189
Less: allowance for uncollectibles	(492)
Net accounts receivable	\$ 78,697

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.

NOTE 5: TAXES RECEIVABLE

Taxes receivable at June 30, 2010 consisted of the following:

Automobile privilege taxes	\$ 18,733
Motor fuel excise taxes	34,808
Registration and other fees	2,293
Total taxes receivable	\$ 55,834

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NOTE 6: DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES

Amounts due from other State of West Virginia agencies at June 30, 2010 consisted of the following:

The Department of Motor Vehicles	\$ 2,060
Other agencies	<u>258</u>
Total amounts due from other State of West Virginia agencies	<u><u>\$ 2,318</u></u>

Amounts due to other State of West Virginia agencies at June 30, 2010 consisted of the following:

Public Employees Insurance Agency	\$ 1,800
Public Employees Retirement System	1,472
Other agencies	<u>61</u>
Total amounts due to other State of West Virginia agencies	<u><u>\$ 3,333</u></u>

NOTE 7: INVENTORIES

Inventories at June 30, 2010 consisted of the following:

Materials and supplies	\$ 26,341
Equipment repair parts	7,863
Gas and lubrication supplies	<u>2,953</u>
Total inventories	<u><u>\$ 37,157</u></u>

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NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>
Capital assets not being depreciated:				
Land - non infrastructure	\$ 14,221	\$ 1,256	\$ -	\$ 15,477
Land - infrastructure	898,613	29,964	-	928,577
Construction-in-progress - buildings	14,331	11,108	11,088	14,351
Construction-in-progress - land improvements	1,118	1,288	1,833	573
Construction-in-progress - roads	765,591	311,599	230,210	846,980
Construction-in-progress - bridges	287,490	164,695	197,024	255,161
	<u>1,981,364</u>	<u>519,910</u>	<u>440,155</u>	<u>2,061,119</u>
Capital assets being depreciated:				
Buildings	102,399	10,050	347	112,102
Furniture and fixtures	3,861	439	169	4,131
Land improvements - non infrastructure	8,567	1,486	-	10,053
Rolling stock	217,600	27,939	7,800	237,739
Shop equipment	3,040	15	5	3,050
Scientific equipment	2,739	46	-	2,785
Infrastructure - roads	7,539,386	196,232	-	7,735,618
Infrastructure - bridges	2,150,585	194,785	-	2,345,370
	<u>10,028,177</u>	<u>430,992</u>	<u>8,321</u>	<u>10,450,848</u>
Less accumulated depreciation:				
Buildings	39,730	2,846	290	42,286
Furniture and fixtures	3,535	169	169	3,535
Land improvements - non infrastructure	3,019	428	-	3,447
Rolling stock	151,853	17,776	7,345	162,284
Shop equipment	2,987	9	4	2,992
Scientific equipment	1,985	165	-	2,150
Infrastructure - roads	3,744,862	245,438	-	3,990,300
Infrastructure - bridges	405,193	47,164	-	452,357
	<u>4,353,164</u>	<u>313,995</u>	<u>7,808</u>	<u>4,659,351</u>
Total capital assets being depreciated, net	<u>5,675,013</u>	<u>116,997</u>	<u>513</u>	<u>5,791,497</u>
Governmental activities capital assets, net	<u>\$ 7,656,377</u>	<u>\$ 702,783</u>	<u>\$ 506,544</u>	<u>\$ 7,852,616</u>

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NOTE 8: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$310,553 was allocated to separate line items in the statement of activities under the major functions of the Division, such as Maintenance and/or Improvements. The remaining \$3,442 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.

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Buildings and improvements	\$ 2,845
Furniture and fixtures	169
Land improvements	428
Total unallocated	<u>3,442</u>
Rolling stock	17,776
Shop equipment	10
Scientific equipment	165
Total road maintenance	<u>17,951</u>
Infrastructure - roads	245,437
Infrastructure - bridges	47,165
Total other road operations	<u>292,602</u>
Total depreciation expense	<u>\$ 313,995</u>

NOTE 9: RETAINAGES PAYABLE

Retainages payable includes funds withheld from payments to consulting firms and construction contractors. Retainage payments are made to the consultants and contractors when work is satisfactorily completed. The Division has entered into an arrangement with the BTI whereby amounts retained from payments to construction contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2010, retainages payable included \$237 that was on deposit at BTI for construction contractors.

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NOTE 10: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2010, 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	\$ 36,025	\$ -	\$ -	\$ 36,025
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	36,745	-	11,150	25,595
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	298,335	-	20,440	277,895
Total general obligation bonds				371,105	-	31,590	339,515
Note premium				24,184	-	1,633	22,551
Total general obligation bonds payable including premium				395,289	-	33,223	362,066
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	61,600	-	7,665	53,935
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	26,725	-	3,340	23,385
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	76,835	-	9,840	66,995
Total revenue notes payable				165,160	-	20,845	144,315
Note premium				7,135	-	1,019	6,116
Total general obligation notes payable including premium				172,295	-	21,864	150,431
Claims and judgments				7,809	11,185	509	18,485
Compensated absences				29,378	-	1,228	28,150
Other postemployment benefits				14,101	30,555	-	44,656
Total long-term obligations				\$ 618,872	\$ 41,740	\$ 56,824	\$ 603,788



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
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NOTE 10: 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 requires 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 \$25,148 for the year ended June 30, 2010. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable liquidated through debt service funds, are as follows:

	2011	2012	2013	2014	2015	2016- 2020	2021- 2025	Total
General obligation bonds payable from tax revenue:								
Safe road bonds	\$ 49,993	\$ 49,995	\$ 38,618	\$ 36,973	\$ 36,981	\$ 131,045	\$ 117,577	\$ 461,182
Less: interest	<u>16,828</u>	<u>15,130</u>	<u>13,388</u>	<u>12,133</u>	<u>10,891</u>	<u>37,740</u>	<u>15,557</u>	<u>121,667</u>
Total principal	33,165	34,865	25,230	24,840	26,090	93,305	102,020	339,515
Bond premium	<u>1,586</u>	<u>1,541</u>	<u>1,499</u>	<u>1,494</u>	<u>1,494</u>	<u>7,469</u>	<u>7,468</u>	<u>22,551</u>
Total principal and bond premium	<u>\$ 34,751</u>	<u>\$ 36,406</u>	<u>\$ 26,729</u>	<u>\$ 26,334</u>	<u>\$ 27,584</u>	<u>\$ 100,774</u>	<u>\$ 109,488</u>	<u>\$ 362,066</u>
Revenue notes payable from federal aid revenue:								
Surface transportation special obligation notes	\$ 27,575	\$ 27,588	\$ 27,547	\$ 27,519	\$ 27,504	\$ 27,499	\$ -	\$ 165,232
Less: interest	<u>6,055</u>	<u>5,163</u>	<u>4,177</u>	<u>3,044</u>	<u>1,854</u>	<u>624</u>	<u>-</u>	<u>20,917</u>
Total principal	21,520	22,425	23,370	24,475	25,650	26,875	-	144,315
Note premium	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,021</u>	<u>-</u>	<u>6,116</u>
Total principal and note premium	<u>\$ 22,539</u>	<u>\$ 23,444</u>	<u>\$ 24,389</u>	<u>\$ 25,494</u>	<u>\$ 26,669</u>	<u>\$ 27,896</u>	<u>\$ -</u>	<u>\$ 150,431</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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NOTE 10: LONG-TERM OBLIGATIONS (Continued)

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. The Division sold \$76,835 of additional Garvee notes during the fiscal year ending June 30, 2009.

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.

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

	Compensated Absences	Other Post Employment Benefits	Claims and Judgments	General Obligation Bonds and Revenue Notes and Premium	Total
Short-term liability	\$ 11,999	\$ -	\$ 1,564	\$ 57,290	\$ 70,853
Long-term liability	<u>16,151</u>	<u>44,656</u>	<u>16,921</u>	<u>455,207</u>	<u>532,935</u>
	<u>\$ 28,150</u>	<u>\$ 44,656</u>	<u>\$ 18,485</u>	<u>\$ 512,497</u>	<u>\$ 603,788</u>

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NOTE 10: LONG-TERM OBLIGATIONS (Continued)

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

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
Estimated claims liability, July 1	\$ 7,809	\$ 12,729	\$ 6,050
Additions for claims incurred during the year	1,564	509	714
Changes in estimates for claims of prior periods	9,621	(4,715)	6,595
Payments on claims	<u>(509)</u>	<u>(714)</u>	<u>(630)</u>
Estimated claims liability, June 30	<u>\$ 18,485</u>	<u>\$ 7,809</u>	<u>\$ 12,729</u>

At June 30, 2010, approximately \$13,871 of tort claims, \$1,850 in environmental claims, and \$1,200 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 \$18,485 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 \$1,564. 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. Upon retirement, an employee may apply unused sick leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or apply unused sick leave or annual leave or both to obtain a greater benefit under the West Virginia Public Employees Retirement System.

NOTE 11: 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 June 30, 2011, 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, 2010 the Division incurred payroll related expenditures of approximately \$22,846 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$18,040 in employer matching contributions to the State Public Retirement System.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
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NOTE 12: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$655,569 at June 30, 2010.

The Division participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected by the Division, may constitute a liability to the federal awarding agency 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 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.

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Division. At June 30, 2010, there were approximately 416 open cases. These cases involve the acquisitions of properties by the Division for right of way purposes. The Division has paid the applicable courts, on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Division.

NOTE 13: 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, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 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 15.5% of annual covered payroll, including the Division's contribution of 11% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$18,040, \$18,154, and \$16,912, respectively, equal to the required contributions for each year.

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NOTE 14: OTHER POST EMPLOYMENT BENEFITS

The Division participates in the West Virginia Other Postemployment Benefit Plan (OPEB) of the West Virginia Retiree Health Benefit Trust Fund (RHBTF), a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan, established in accordance with GASB Statement No. 45, provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to West Virginia Public Employees Insurance Agency, 601 57<sup>th</sup> Street, Charleston, WV 25304 or by calling 1-888-680-7342.

The Code requires the RHBTF to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The ARC rate is nine hundred one dollars per employee per month for the year ending June 30, 2010. The Division's ARC was \$30,555, \$19,296, and \$22,605 and the Division has paid premiums of \$7,516, \$10,267, and \$11,622, which represent 24.6%, 53.2%, and 51.4% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. At June 30, 2010, the liability related to OPEB costs was \$44,656.

NOTE 15: 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. 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 10, 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 10.

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. These reports may be obtained by writing to West Virginia Public Employees Insurance Agency, 601 57<sup>th</sup> Street, Charleston, WV 25304 or by calling 1-888-680-7342.

The Division also carries workers compensation insurance coverage through a commercial insurance carrier. The commercial insurance carrier is paid a monthly rated premium to provide compensation for injuries sustained in the course of employment.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
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NOTE 16: SUBSEQUENT EVENTS

The Division issued on behalf of the State of West Virginia, \$35,135 in General Obligation State Road Refunding Bonds, Series 2010A on July 22, 2010, resulting in proceeds of \$38,388. This bond issue refunds Series 1998 and Series 2001 General Obligation State Road Bonds with cumulative outstanding principal of \$37,730, and will result in a net present value savings of \$4,265 over the life of the bond issue. The effects of this transaction are not reflected in the accompanying financial statements.

COMPLIANCE AND INTERNAL CONTROL REPORT

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

Joint Committee on Government and Finance  
West Virginia Legislature

We have audited the financial statements of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2010-1 and 2010-3 in the accompanying schedule of findings and responses to be material weaknesses.



A *significant deficiency* is a deficiency , or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2010-2 in the accompanying schedule of findings and responses to be a significant deficiency.

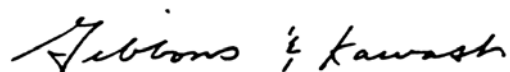
#### Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the Joint Committee on Government and Finance of the West Virginia Legislature in a separate letter dated November 12, 2010.

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

This report is intended solely for the information of management of the Division, and the Joint Committee on Government and Finance of the West Virginia Legislature and is not intended to be and should not be used by anyone other than these specified parties.



November 12, 2010

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2010

**2010-1 FINANCIAL REPORTING - CAPITAL ASSETS**

Criteria:

Expenditures for infrastructure assets are required by accounting principles generally accepted in the United States of America to be capitalized in the Government-wide Financial Statements and depreciated over their estimated useful lives.

Condition:

The Division's process for identifying expenditures for infrastructure assets that meet its established capitalization threshold is dependent on the project completion date as reported in the project management system. We noted that the Division does not have effective controls established to ensure that the project completion date entered into the project management system is accurate.

Cause:

The Division has not established effective procedures to ensure that the project completion date used to evaluate and determine the capitalization of expenditures is accurate.

Context:

We noted a \$22.047 million reduction of expenditures for infrastructure assets in the current fiscal year that related to the correction of prior year errors made in extracting data from the project management system to arrive at final capital asset balances in the Government-wide Financial Statements. The Division's net infrastructure capital assets reported in its Government-wide Financial Statements were \$5.638 billion at June 30, 2010.

Effect:

Errors in the reported balances for capital assets and expenses in the Division's Government-wide Financial Statements could occur without being detected by management.

Recommendation:

To ensure that capitalized expenditures and related depreciation expense are complete and accurate, management should establish procedures to ensure that the project completion date in the project management system is accurate. The Division should consider changes in supervisory review procedures to ensure that infrastructure items are appropriately identified and capitalized.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2010

**2010-1 FINANCIAL REPORTING - CAPITAL ASSETS (Continued)**

Views of Responsible Officials:

Agree. We will work with the appropriate Engineering personnel to establish definitive criteria for Capital Assets and implement that criteria with the new PRIMAVERA database that will track DOH projects. PRIMAVERA is scheduled for "roll-out" in the Spring 2011 and should be fully operational for the audit of FYE June 30, 2011.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES  
(Continued)

Year Ended June 30, 2010

**2010-2 INFORMATION TECHNOLOGY SYSTEM CONTROLS**

Criteria:

Management is responsible for establishing and maintaining effective internal controls over financial reporting. A fundamental concept of internal control is adequate segregation of incompatible duties, the premise being that responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets are assigned to different employees.

Condition:

The Division operates several information technology systems that affect the information that is reported in the Division's financial statements. During our review of the information technology systems, we noted:

- The process for system change management for the contract management system (PRS) is informal and the key authorizations (initial system change request, testing of the change, and migration to production) are not documented.
- The process for system change management in the Division's primary accounting system (REMIS) lacks adequate segregation of duties. Specifically, two Information Services Managers have the ability to make changes in the development environment and migrate those changes to the production environment. Additionally, we noted that an independent review of the system change reports is not performed to determine if any unauthorized changes have occurred.
- The process to grant, modify, or revoke user rights within PRS is not formally documented and reviewed.

Cause:

The Division has not established or monitored the existing information technology systems policies and procedures over change management and certain system access controls.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES  
(Continued)

Year Ended June 30, 2010

**2010-2 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)**

Context:

All financial transactions of the Division are processed through these information technology systems.

Effect:

Changes to the information technology systems programming can be placed in production without appropriate supervisory review and approval. Additionally, unauthorized access to these information technology systems may occur and go undetected.

Recommendation:

The Division should implement procedures to:

- Document the change management process for PRS. This documentation should include the change requested, individual making the request, and appropriate supervisory review and approval, which must occur prior to the changes being migrated to production.
- Segregate the incompatible duties over change management to REMIS and implement a process for independent review of system change reports for unauthorized changes.
- Document the process for changing existing user rights within PRS. This documentation should include the change requested, individual making the request, and appropriate supervisory review and approval of the change.

Views of Responsible Officials:

Agree. Information Systems has developed a program to document and track all changes made to PRS and all other programs which may be applicable. The Information Systems Division agrees that management should be periodically reviewing the changes. However, with the limited programming staff available, there is not sufficient time for other experienced programmers to review changes in comprehensive detail. Should the additional programmers be employed, more compliance with this finding would be expected. The process to add or delete a user to the SQL tables has been made the same as the rules for adding and deleting to the PRS domain user group. It is anticipated with the implementation of the Statewide Enterprise Resource Program in July 2013, all the system control issues will be resolved.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES  
(Continued)

Year Ended June 30, 2010

**2010-3 NON-FEDERAL AID RECEIVABLE RECONCILIATION**

Criteria:

To ensure the completeness and accuracy of financial information, procedures should be in place to ensure that the amounts recorded in accounts receivable are properly recorded.

Condition:

We noted that the Division does not have a process to ensure that balances in the accounts receivable non-federal aid earned and unbilled are valid receivables that represent amounts that will be collected in the future.

Cause:

The Division has no procedure established to ensure that amounts recorded as non-federal aid receivables earned and unbilled are timely reconciled to subsidiary records for accuracy.

Context:

The unadjusted general ledger balance was overstated by \$3.43 million. Non-federal aid accounts receivable net of estimates for uncollectable accounts were \$10.9 million in the accompanying financial statements.

Effect:

Without an effective procedure to ensure that receivables are properly recorded, misstatements of the financial statements can occur, and have occurred, and gone undetected by the Division's personnel in the normal course of performing their assigned functions.

Recommendation:

We recommend that the Division establish procedures to ensure that recorded receivables exist and are recorded for the proper amount. The procedures should include analysis of individual recorded items to ensure that all recorded items represent amounts to be collected in the future.

Views of Responsible Officials:

Agree. The Accounts Receivable Section will develop and implement reconciliation procedures for the Non-Federal Aid Receivables.