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, 2009
AND
INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the West Virginia Department of Transportation, Division of Highways (the Division), as of and for the year ended June 30, 2009, 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, 2009 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, 2009, 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 December 4, 2009, 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.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gibbons & Kawash

December 4, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2009. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Division's total combined net assets are $7.35 billion as of the close of fiscal year 2009.

Changes in Net Assets - During the year the Divisions' Net Assets increased $160 million or 2.22%. This percentage of increase slowed from the prior year, when Net Assets increased $290 million or 4.20%.

Revenues and Expenses - Total revenues increased by $26 million or 2.35%. Total expenses increased $113 million or 12.93%. 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 2009, the Division's governmental funds reported combined total fund equity of $316 million, a decrease of $51 million in comparison with the prior year. Of this total amount, $276 million represents the "unreserved fund balances" with a majority of that in the general fund. This is approximately 21.53% of the total governmental fund expenditures for the year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by $32 million during the current fiscal year. The Division's total outstanding special obligation notes, net of note premium, increased by $70 million increasing debt by 7.25% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

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

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Division's net assets as of June 30, 2009 and 2008 (amounts in thousands).

Net Assets as of June 30

	2009	2008	% Change
Total current assets	$ 388,892	$ 451,304	-13.83%
Capital assets, net of accumulated depreciation	7,656,377	7,402,339	3.43%
Other non-current assets	2,694	2,468	9.16%
Total assets	8,047,963	7,856,111	2.44%
Total current liabilities	144,717	142,900	1.27%
Long term liabilities	551,139	520,712	5.84%
Total liabilities	695,856	663,612	4.86%
Invested in capital assets, net of related debt	7,144,763	6,886,996	3.74%
Restricted	18,119	17,892	1.27%
Unrestricted	189,225	287,611	-34.21%
Total net assets	$ 7,352,107	$ 7,192,499	2.22%

The largest component (97.18%) 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.

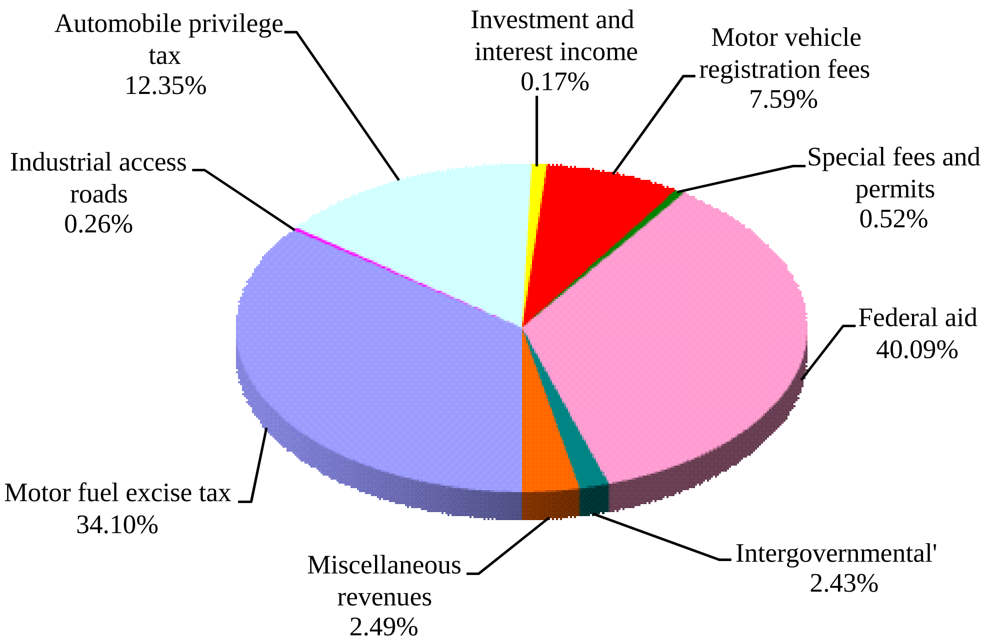
Condensed Statement of Activities

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):

	2009	2008	% Change
Revenues			
Taxes	$ 533,833	$ 564,736	-5.47%
Investment and interest income	1,919	9,691	-80.20%
Intergovernmental	27,924	18,843	48.19%
Miscellaneous revenues	28,647	36,479	-21.47%
Total general revenues	592,323	629,749	-5.94%
Capital grants and contributions	463,790	401,029	15.65%
Charges for service	93,213	92,120	1.19%
Total program revenues	557,003	493,149	12.95%
Total revenues	1,149,326	1,122,898	2.35%
Expenses			
Road maintenance	464,083	410,646	13.01%
Other road operations	425,687	351,894	20.97%
General and administration	73,854	86,912	-15.02%
Interest on long-term debt	22,730	23,692	-4.06%
Unallocated depreciation	3,364	3,262	3.13%
Total expenses	989,718	876,406	12.93%
Change in net assets before cumulative effect	159,608	246,492	-35.25%
Cumulative effect of adoption of accounting principle	-	43,141	
Net assets, beginning	7,192,499	6,902,866	4.20%
Net assets, ending	$ 7,352,107	$ 7,192,499	2.22%

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 $160 million or 2.22% percent.

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



Total revenues increased by approximately $26 million. Total tax revenues decreased by approximately $31 million. Federal aid revenue increased by approximately $63 million or 15.71%. The following summarizes revenues for the years ended June 30, 2009 and June 30, 2008 (amounts in thousands):

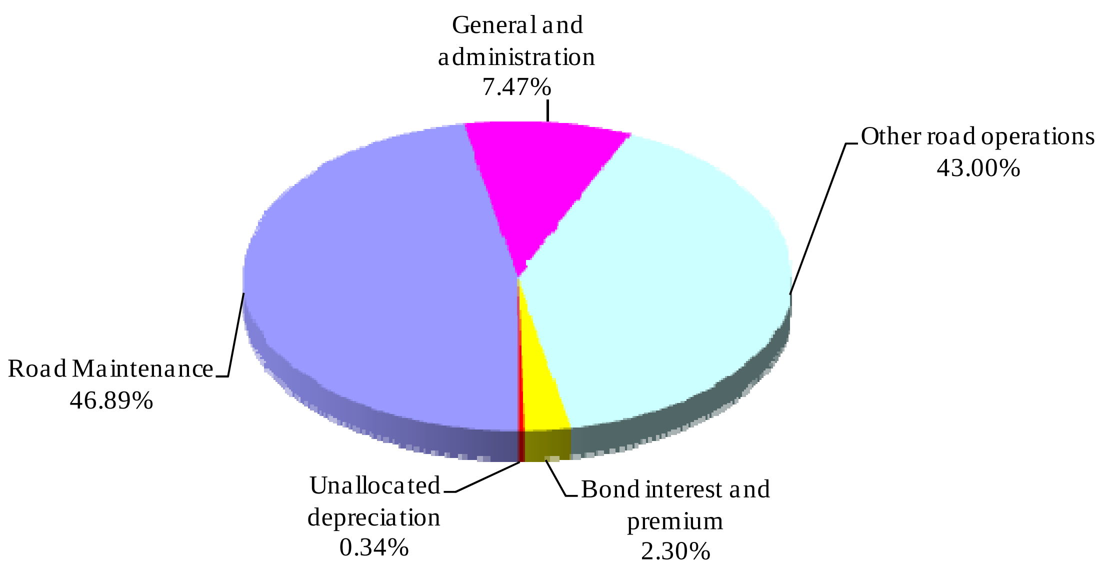
	2009	2008	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	$ 391,903	$ 395,641	$ (3,738)	-0.94%
Industrial access roads	3,010	2,806	204	7.27%
Automobile privilege tax	141,930	169,095	(27,165)	-16.06%
Motor vehicle registration fees	87,255	86,166	1,089	1.26%
Special fees and permits	5,958	5,954	4	0.07%
Federal aid	460,780	398,223	62,557	15.71%
Investment and interest income	1,919	9,691	(7,772)	-80.20%
Intergovernmental	27,924	18,843	9,081	48.19%
Miscellaneous revenues	28,647	36,479	(7,832)	-21.47%
	$ 1,149,326	$ 1,122,898	$ 26,428	2.35%

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.

While tax collections, reported on a cash basis, grew for several fiscal years prior to FY 2009, they dropped precipitously in FY 2009. Privilege Tax collections were $15.6 million (9.39%) below estimates and $18.7 million (11.02%) below FY 2008 revenues. Although Motor Fuel Tax revenues exceeded estimates by $4.5 million (1.19%), they were $19.68 million (4.87%) below FY 2008 revenues. In FY 2010, Motor Fuel Tax revenues and Registration Fees are projected to be stagnant, and Privilege Tax collections are expected to continue to decline due to the recession. As the 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 will 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 2009 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.



Total expenses increased by approximately $113 million or 12.93%. The following summarizes expenditures for the years ended June 30, 2009 and June 30, 2008 (amounts in thousands):

	2009	2008	Increase (Decrease)	% Increase (Decrease)
Road maintenance	$ 464,083	$ 410,646	$ 53,437	13.01%
Other road operations	425,687	351,894	73,793	20.97%
General and administration	73,854	86,912	(13,058)	-15.02%
Interest on long-term debt	22,730	23,692	(962)	-4.06%
Unallocated depreciation	3,364	3,262	102	3.13%
	$ 989,718	$ 876,406	$ 113,312	12.93%

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 2009, 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, 2009, the Division reported fund balances of approximately $316 million. Of this total amount, $276 million, 87.37%, constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2009 fiscal year, unreserved fund balance of the General Fund was $219 million and reserved fund balance was $40 million. The total General Fund balance decreased $94 million during the year primarily due to decreases in Motor Fuel and Privilege Tax revenue and corresponding increases in fiscal year 2009 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 year. The Division sold $77 million in GARVEE notes during the fiscal year ended June 30, 2009. The current GARVEE note sales are for the construction of portions of the US 35 corridor. At June 30, 2009 the capital projects balance of approximately $57 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 high motor fuel prices and the faltering economy, motor fuel consumption and revenues decreased in FY 2009 as motorists drove fewer miles and purchased vehicles that were more fuel-efficient. As fuel consumption continues to decline, it is expected to have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. Privilege Tax collections were substantially lower than in FY 2008; in turn, FY 2008 collections were lower than in FY 2007. This downward trend is expected to continue in FY 2010 as motorists buy less expensive vehicles or keep their current vehicles longer. Tax and fee revenues collections decreased by approximately $30 million in 2009: they increased $28 million during the previous year. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	2009	2008	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise and wholesale fuel	$ 391,903	$ 395,641	$ (3,738)	-0.94%
Motor vehicle registration	87,255	86,166	1,089	1.26%
Privilege tax	141,930	169,095	(27,165)	-16.06%
	$ 621,088	$ 650,902	$ (29,814)	-4.58%

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly On January 1, 2008, the rate rose from 11 cents to 11.7 cents per invoiced gallon. As the result of passage of HB 218 by the West Virginia legislature, the variable rate remained unchanged in 2009.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2009 was $459.6 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):

	2009	2008	Increase (Decrease)	% Increase (Decrease)
Federal reimbursement - Budgeted funds	$ 441,658	$ 381,948	$ 59,710	15.63%
Federal reimbursement - Surface Transportation	14,692	14,745	(53)	-0.36%
Federal reimbursement - Emergency funds	4,430	1,530	2,900	189.54%
Total Federal Aid	$ 460,780	$ 398,223	$ 62,557	15.71%

It is anticipated that state revenues will decrease slightly in FY 2010, primarily due to the continued decline in Privilege Tax collections. The Division's revenues are not projected to keep pace with increases in operating costs, and Management has taken steps to maintain a fiscally sound fund equity balance. The FY 2010 budget, exclusive of ARRA projects, which are 100% federally-reimbursed, reflects an approximate $32 million reduction in expenditures and $20 million decrease in fund balance. If revenues are significantly less than estimated, Management is confident that adequate discretionary expenditure items can be reduced to permit the Division to continue to operate in a fiscally sound manner.

The next six-year federal highway funding authorization is not expected to be enacted prior to the start of FFY 2010. Consequently, the Division expects to receive 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2009, the Division had invested $7.7 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled $308 million.

The $254 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 $288 million in depreciation of the infrastructure. The Division expended $702 million dollars during the year ended June 30, 2009 for additions to capital assets. Of this amount, $663 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 $813 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, Corridor D in Wood County, widening of I-79 in Harrison County, upgrade of WV Route 9 in the Eastern Panhandle, upgrade of US Route 35 in Putnam County, upgrade of US Route 52 in Mercer County, Coalfields Expressway in Raleigh County, Fairmont Connector, Mon/Fayette Expressway, 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, 2009, the Division had $371 million in outstanding bonds. The amount outstanding decreased by $30 million (7.50%) 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, 2009, the Division had $165 million in outstanding revenue notes. The amount increased by $66 million (67%) due to the issuance of revenue notes.

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

Issue	Status of insurance	Bond Rating		Amount (in thousands)	
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: Moody's: S&P:	AAA Aaa AAA	$	36,025
Safe Roads 01A - Bonds maturing between June 1, 2007 to 2013	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		36,745
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		298,335
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: Moody's: S&P:	AAA Aaa AAA		61,600
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: Moody's: S&P:	AAA Aaa AAA		26,725
Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) – Notes Maturing on or before June 1, 2016	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		76,835
				$	536,265

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF NET ASSETS
JUNE 30, 2009

(amounts expressed in thousands)

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	$	203,305
Restricted cash and cash equivalents		1
Accounts receivable, net		85,753
Taxes receivable		56,960
Due from other State of West Virginia agencies		2,992
Inventories		39,881
Total current assets		388,892
Non-current assets		
Capital assets not being depreciated		
Land - non-infrastructure		14,221
Land - infrastructure		898,613
Construction in progress		1,068,530
Capital assets net of accumulated depreciation		
Land improvements		5,548
Buildings		62,669
Furniture and fixtures		326
Rolling stock		65,747
Scientific equipment		754
Shop equipment		53
Roads		3,794,524
Bridges		1,745,392
Total capital assets		7,656,377
Other non-current assets		2,694
Total assets		8,047,963
LIABILITIES		
Current liabilities		
Accounts payable		43,947
Retainages payable		5,980
Accrued payroll and related liabilities		19,512
Deferred Revenue		604
Due to other State of West Virginia agencies		3,081
Accrued interest payable		3,860
Current maturities of long term obligations		67,733
Total current liabilities		144,717
Non-current liabilities		
Claims and judgements		7,300
Compensated absences		17,241
Other Post Employment Benefits Liability		14,101
Long - term debt obligations		512,497
Total non-current liabilities		551,139
Total liabilities		695,856
NET ASSETS		
Invested in capital assets, net of related debt		7,144,763
Unrestricted		189,225
Restricted		
Coal Resource		8,645
Waste Tire		2,186
Industrial Access		7,288
Total net assets	$	7,352,107

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF ACTIVITES
FOR THE YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Assets
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	$ 306,686			$ (306,686)
Contract paving & secondary roads	108,779			(108,779)
Small bridge repair & replacement	29,880			(29,880)
Litter control program	1,692			(1,692)
Depreciation	17,046			(17,046)
Other road operations				
Interstate highways	39,292		$ 121,087	81,795
Appalachian highways	7,567		73,894	66,327
Other federal aid programs	87,618		265,799	178,181
Non federal aid improvements	465			(465)
Industrial access roads	2,776		3,010	234
Depreciation	287,969			(287,969)
General and administration				
Support and administrative operations	47,692	$ 5,958		(41,734)
Claims	(4,196)			4,196
Costs associated with DMV	30,358	87,255		56,897
Interest on long-term debt	22,730			(22,730)
Unallocated depreciation	3,364			(3,364)
	$ 989,718	$ 93,213	$ 463,790	(432,715)
General revenues				
Taxes:				
Gasoline and motor carrier				391,903
Automobile privilege				141,930
Investment and interest income				1,919
Intergovernmental				27,924
Miscellaneous revenues				28,647
Total general revenues				592,323
Change in net assets				159,608
Net assets, beginning				7,192,499
Net assets, ending				$ 7,352,107

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2009

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	$ 144,533	$ 58,773	$ 203,306
Receivables	85,753	-	85,753
Taxes receivable	56,960	-	56,960
Due from other funds	5,582	-	5,582
Due from other State of West Virginia agencies	2,992	-	2,992
Inventories	39,881	-	39,881
Total assets	$ 335,701	$ 58,773	$ 394,474
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 42,243	$ 1,704	$ 43,947
Retainages payable	5,980	-	5,980
Accrued payroll and related liabilities	19,512	-	19,512
Deferred Revenue	604	-	604
Due to other funds	5,455	127	5,582
Due to other State of West Virginia agencies	3,081	-	3,081
Total liabilities	76,875	1,831	78,706
Fund balances			
Reserved for inventories	39,881	-	39,881
Unreserved, undesignated	218,945	56,942	275,887
Total fund balances	258,826	56,942	315,768
Total liabilities and fund balances	$ 335,701	$ 58,773	$ 394,474

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

(amounts expressed in thousands)

Total fund balances - governmental funds		$ 315,768
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital assets not being depreciated		
Land - non-infrastructure	$ 14,221	
Land - infrastructure	898,613	
Construction in progress	1,068,530	
Capital assets net of accumulated depreciation		
Land improvements	5,548	
Buildings	62,669	
Furniture and fixtures	326	
Rolling stock	65,747	
Scientific equipment	754	
Shop equipment	53	
Roads	3,794,524	
Bridges	1,745,392	7,656,377
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.		2,694
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	(3,860)	
Claims and judgments	(7,809)	
Compensated absences	(43,479)	
General obligation bonds and revenue notes	(567,584)	(622,732)
Net assets of governmental activities		$ 7,352,107

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
Revenues			
Taxes			
Gasoline and motor carrier	$ 391,903	$ -	$ 391,903
Automobile privilege	141,930	-	141,930
Industrial access roads	3,010	-	3,010
License, fees and permits			
Motor vehicle registrations and licenses	87,255	-	87,255
Special fees and permits	5,958	-	5,958
Federal aid			
Interstate highways	121,087	-	121,087
Appalachian highways	73,894	-	73,894
Other federal aid programs	251,107	14,692	265,799
Investment and interest income, net of arbitrage rebate	1,716	203	1,919
Intergovernmental	27,924	-	27,924
Miscellaneous revenues	28,649	-	28,649
	1,134,433	14,895	1,149,328
Expenditures			
Current			
Road maintenance			
Expressway, trunkline and feeder, state and local services	312,984	-	312,984
Contract paving and secondary roads	108,779	-	108,779
Small bridge repair and replacement	47,813	-	47,813
Litter control program	1,692	-	1,692
Support and administrative operations	67,340	-	67,340
Division of Motor Vehicles operations	30,358	-	30,358
Claims	724	-	724
Capital outlay and other road operations			
Road construction and other road operations			
Interstate highways	144,799	-	144,799
Appalachian highways	104,017	-	104,017
Other federal aid programs	323,947	38,018	361,965
Nonfederal aid construction and road operations	33,448	-	33,448
Industrial access roads	2,776	-	2,776
Debt service			
Bond issue cost	5	-	5
Principal	30,085	10,550	40,635
Interest	19,910	4,200	24,110
	1,228,677	52,768	1,281,445
Excess (deficiency) of revenues over expenditures	(94,244)	(37,873)	(132,117)
Other financing sources (uses)			
Sale of bonds	-	80,964	80,964
Net change in fund balances	(94,244)	43,091	(51,153)
Fund balances, beginning of year	353,070	13,851	366,921
Fund balances, end of year	$ 258,826	$ 56,942	$ 315,768

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	(51,153)
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 $ 563,081 exceeded depreciation of ($ 308,379) in the current period.		254,702
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.		(663)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(40,278)
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 compensated absences of $ (273), increase in other postemployment benefits liability of $ (9,030) amortization of bond issue cost of $ (368) and increase in interest payable of $ (730), exceed the decrease in claims $ 4,920 and the accretion of bond premium of $ 2,481.		(3,000)
Change in net assets of governmental activities	$	159,608

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2009

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	$ 380,000	$ -	$ 380,000	$ 384,539	$ 4,539
Automobile privilege	166,413	-	166,413	150,794	(15,619)
Motor vehicle registrations and licenses	90,003	-	90,003	89,428	(575)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,010)	(10)
Federal aid	460,000	79,562	539,562	459,591	(79,971)
Miscellaneous revenues	32,869	14,927	47,796	45,262	(2,534)
	1,126,285	94,489	1,220,774	1,126,604	(94,170)
Expenditures					
Road construction and other road operations					
Interstate highways	80,000	65,000	145,000	142,390	2,610
Appalachian highways	160,000	(45,922)	114,078	103,609	10,469
Other federal aid programs	325,700	14,000	339,700	308,382	31,318
Nonfederal aid construction	30,000	15,000	45,000	30,852	14,148
Federal economic stimulus	-	40,000	40,000	9,466	30,534
Road maintenance					
Maintenance	296,608	30,161	326,769	324,485	2,284
Contract paving and secondary roads	100,000	13,000	113,000	105,934	7,066
Small bridge repair and replacement	50,000	-	50,000	45,331	4,669
Litter control program	1,699	-	1,699	1,699	-
Support and administrative operations					
General operations	45,371	1,000	46,371	36,915	9,456
Equipment revolving	15,000	5,000	20,000	17,462	2,538
Inventory revolving	2,000	2,000	4,000	98	3,902
Debt service	50,000	-	50,000	49,846	154
Division of Motor Vehicles operations	34,846	-	34,846	30,332	4,514
Claims - DOH and DMV	714	-	714	713	1
	1,191,938	139,239	1,331,177	1,207,514	123,663
Excess (deficiency) of revenues over expenditures	(65,653)	(44,750)	(110,403)	(80,910)	29,493
Fund balance, beginning of year	165,781	43,041	208,822	208,822	-
Fund balance, end of year	$ 100,128	$ (1,709)	$ 98,419	$ 127,912	$ 29,493

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, Division of Highways (the "Division") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2009 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. The government-wide statement of net assets reports $18,119 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, 2009, has been reported only in the government-wide financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. 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. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.

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

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

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

FUND ACCOUNTING - The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The following summarizes the major governmental funds that are presented in the accompanying financial statements:

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

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

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2009 are a result of these routine payments and transfers.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the Coal Resource Fund, Industrial Access Fund and certain monies reported within the State Road Fund 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, 2009, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	$	(80,910)
Basis of accounting differences (budgetary to GAAP)		(42,718)
Unbudgeted funds		1,460
Deficiency of revenues over expenditures - GAAP basis	$	(122,168)

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Division at rates specified by the BTI based on the balance of the Division's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the BTI.

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. During 2008, the legislature passed a bill allowing 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.

POSTEMPLOYMENT BENEFITS - Any unused vacation and sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Division's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the postemployment benefits. Employees hired subsequent to July 1, 2001 are not eligible for these benefits. Expenditures for postemployment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-employment health insurance as a liability. Effective July 1, 2007, The Division, adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement provided standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities (see Note 9).

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEWLY ADOPTED STATEMENTS ISSUED BY THE GASB —

During 2009, the Division adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The adoption of this statement had no impact on the financial statements at June 30, 2009.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective immediately. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The Division adopted GASB Statement No. 55 upon issuance.

During 2009, the GASB also issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective immediately. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The Division adopted GASB Statement No. 56 upon issuance.

RECENT STATEMENTS ISSUED BY THE GASB –

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

The GASB has issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, effective for periods beginning after June 15, 2009. 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 Division has not yet determined the effect that the adoption of GASB Statement No. 53 may have on the financial statements.

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS

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

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 19,590	$ 19,590
Cash on deposit with State Treasurer in Debt Service Fund	12	$ 12
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	118,959	118,959
Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool	5,930	5,930
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool - (Garvee 2006A)	1,208	1,208
Cash on deposit with State Treasurer invested in BTI WV Government Money Market Pool - (Garvee 2009A)	57,557	57,557
Cash on deposit with Huntington Bank (Restricted)	1	1
Cash in transit	49	49
	$ 203,306	$ 203,306

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 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 and accounts 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, 2009, 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.

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

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, 2009, the WV Money Market Pool investments had a total carrying value of $2,570,261, of which the Division's ownership represents 4.68%.

WV Government Money Market Pool

Credit risk - For the year ended June 30, 2009, 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, 2009, the WV Government Money Market Pool investments had a total carrying value of $283,826, of which the Division's ownership represents 20.28%.

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 (in thousands):

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating * Moody's	Credit Rating * S&P	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 16,402	5.21%
	Aaa	NR	5,136	1.63
	Aa3	AAA	223	0.07
	Aa2	AAA	461	0.15
	A3	AAA	273	0.09
	Baa2	AAA	831	0.26
	Baa1	BBB**	332	0.10
	Baa2	BBB**	1,376	0.44
	Ba3	AAA	645	0.20
	B1	AAA	779	0.25
	B2	B**	493	0.16
	B2	CCC**	539	0.17
	B3	AAA	949	0.30
	Caa1	BB**	254	0.08
	NR	AAA	679	0.22
Total corporate asset backed securities			29,372	9.33
Corporate bonds and notes	Aaa	AAA	47,204	14.99
	Aa1	AA	4,445	1.41
	Aa1	A	2,052	0.65
	Aa2	AAA	3,040	0.96
	Aa2	AA	9,066	2.88
	Aa3	A	7,831	2.49
	A1	AA	4,813	1.53
	A1	A	5,522	1.75
	A2	A	32,040	10.17
	A3	A	7,024	2.23
	Baa3	A	2,067	0.66
Total corporate bonds and notes			125,104	39.72
U.S. agency bonds	Aaa	AAA	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	88,805	28.20
U.S. agency mortgage backed securities ****	Aaa	AAA	4,975	1.58
Money Market Funds	Aaa	AAA	6,426	2.04
			$ 314,932	100.00%

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2009. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisers 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 and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2009, the Division's ownership represents 1.88% of these amounts held by BTI.

Interest Rate Risk

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

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

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	WAM DAYS
Repurchase agreements	$ 212,010	1
U.S. Treasury Bills	483,714	69
Commercial paper	592,479	32
Certificates of deposit	128,402	56
U.S. agency discount notes	635,602	57
Corporate bonds and notes	73,812	38
U.S. agency bonds/notes	294,019	70
Money market fund	150,223	1
	$ 2,570,261	47

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	WAM DAYS
Repurchase agreements	$ 53,000	1
U.S. Treasury Bills	74,424	94
U.S. agency discount notes	87,662	55
U.S. agency bonds/notes	68,608	37
Money market fund	132	1
	$ 283,826	51

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The overall effective duration (overall weighted average maturity in 2008) 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, 2009:

Security Type	Carrying Value	WAM DAYS
U.S. Treasury bonds/notes	$ 88,805	917
Corporate notes	125,104	559
Corporate asset backed securities	29,372	622
U.S. agency bonds/notes	60,250	752
U.S. agency mortgage backed securities	4,975	540
Money market funds	6,426	1
	$ 314,932	691

Other Investment Risks

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

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

Securities Lending

At June 30, 2009, 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 $360,184 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2009, 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.

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Maturities of investments made with cash collateral are not matched to maturities of securities loaned.

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	$ 242,131	$ 247,000
WV Short Term Bond Pool	110,915	113,184
	$ 353,046	$ 360,184

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.

Restricted Cash and Cash Equivalents for Debt Service Repayment

Credit Risk

The Division limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the note trust indenture that investments in money market funds be rated AAAm or AAAm-G or better by S&P. At June 30, 2009 these funds were invested with Huntington Bank in the Huntington Treasury Money Market IV and VII. The following table provides information on the credit ratings of this investment.

Security Type	Moody's	S&P	Carrying Value	Percentage of Assets
Huntington Treasury Money Market IV & VII	Aaa	AAA	$1	100%

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a failure of the counterparty, the Division will not be able to recover the value of the investment that is in the possession of an outside party. The Division does not have a policy for custodial credit risk. As of June 30, 2009, $1 of the Division's investments was invested in the Huntington Treasury Money Market IV and VII.

(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Interest rate risk

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

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

Foreign Currency Risk

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

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009 consisted of the following:

Federal aid billed and not paid	$ 21,260
Federal aid earned but not billed	51,299
Total federal aid receivable	72,559
Other receivables	13,686
Combined total receivables	86,245
Less: allowance for uncollectibles	(492)
Net accounts receivable	$ 85,753

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 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2009 consisted of the following:

Automobile privilege taxes	$ 18,618
Motor fuel excise taxes	36,053
Registration fees	2,289
Total taxes receivable	$ 56,960

(amounts expressed in thousands)

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

Amounts due from other State of West Virginia agencies at June 30, 2009 consisted of the following:

The Department of Motor Vehicles	$ 2,193
Other agencies	799
Total amounts due from other State of West Virginia agencies	$ 2,992

Amounts due to other State of West Virginia agencies at June 30, 2009 consisted of the following:

Public Employees Insurance Agency	$ 1,717
Public Employee's Retirement	1,307
Other agencies	57
Total amounts due to other State of West Virginia agencies	$ 3,081

NOTE 6: INVENTORIES

Inventories at June 30, 2009 consisted of the following:

Materials and supplies	$ 29,561
Equipment repair parts	7,746
Gas and lubrication supplies	2,574
Total inventories	$ 39,881

(amounts expressed in thousands)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets not being depreciated:				
Land - non infrastructure	$ 15,858	$ -	$ 1,637	$ 14,221
Land - infrastructure	876,642	21,971	-	898,613
Construction-in-progress - buildings	5,493	10,864	2,026	14,331
Construction-in-progress - land improvements	562	1,529	973	1,118
Construction-in-progress - roads	903,930	424,134	562,473	765,591
Construction-in-progress - bridges	456,331	216,493	385,334	287,490
Total capital assets not being depreciated	2,258,816	674,991	952,443	1,981,364
Capital assets being depreciated:				
Buildings	101,118	1,300	19	102,399
Furniture and fixtures	3,983	54	176	3,861
Land improvements - non infrastructure	7,709	858	-	8,567
Rolling stock	208,829	24,529	15,758	217,600
Shop equipment	3,040	-	-	3,040
Scientific equipment	2,391	368	20	2,739
Infrastructure - roads	7,111,505	427,881	-	7,539,386
Infrastructure - bridges	1,765,043	385,542	-	2,150,585
Total capital assets being depreciated	9,203,618	840,532	15,973	10,028,177
Less accumulated depreciation:				
Buildings	36,924	2,825	19	39,730
Furniture and fixtures	3,557	154	176	3,535
Land improvements - non infrastructure	2,634	385	-	3,019
Rolling stock	150,075	16,873	15,095	151,853
Shop equipment	2,979	8	-	2,987
Scientific equipment	1,840	165	20	1,985
Infrastructure - roads	3,500,081	244,781	-	3,744,862
Infrastructure - bridges	362,005	43,188	-	405,193
Total accumulated depreciation	4,060,095	308,379	15,310	4,353,164
Total capital assets being depreciated, net	5,143,523	532,153	663	5,675,013
Governmental activities capital assets, net	$ 7,402,339	$ 1,207,144	$ 953,106	$ 7,656,377

Current year depreciation totaling $305,015 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining $3,364 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

(amounts expressed in thousands)

NOTE 7: CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

Asset Type	Depreciation
Buildings and improvements	$ 2,825
Furniture and fixtures	154
Land improvements	385
Total unallocated	3,364
Rolling stock	16,873
Shop equipment	8
Scientific equipment	165
Total road maintenance	17,046
Infrastructure - roads	244,781
Infrastructure - bridges	43,188
Total other road operations	287,969
Total depreciation expense	$ 308,379

NOTE 8: 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, 2009, retainages payable included $315 that was on deposit at BTI for construction contractors.

(amounts expressed in thousands)

NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2009, 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	1999	4.30% - 5.75%	06/01/2017	2,290	-	2,290	-
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	47,360	-	10,615	36,745
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	315,515	-	17,180	298,335
Total general obligation bonds				401,190	-	30,085	371,105
Bond premium				26,073	-	1,889	24,184
Total general obligation bonds payable net of premium				427,263	-	31,974	395,289
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	68,945	-	7,345	61,600
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	29,930	-	3,205	26,725
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	-	76,835		76,835
Total revenue notes payable				98,875	76,835	10,550	165,160
Bond premium				3,056	4,671	592	7,135
Total general obligation notes payable net of premium				101,931	81,506	11,142	172,295
Claims and judgments				12,729	-	4,920	7,809
Compensated absences				29,105	539	266	29,378
Other postemployment benefits				5,071	9,030	-	14,101
Total long-term obligations				$ 576,099	$ 91,075	$ 48,302	$ 618,872

(amounts expressed in thousands)

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments 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 $24,110 for the year ended June 30, 2009. 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:

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	$ 49,995	$ 49,993	$ 49,995	$ 38,618	$ 36,973	$ 144,513	$ 117,574	$ 23,515	$511,176
Less: interest	18,405	16,828	15,130	13,388	12,133	42,793	20,274	1,120	140,071
Total principal	31,590	33,165	34,865	25,230	24,840	101,720	97,300	22,395	371,105
Bond premium	1,633	1,586	1,546	1,494	1,494	7,469	7,469	1,493	24,184
Total principal and bond premium	33,223	34,751	36,411	26,724	26,334	109,189	104,769	23,888	395,289
Revenue notes payable from federal aid revenue:									
Surface transportation special obligation notes	27,588	27,575	27,588	27,547	27,519	55,002	-	-	192,819
Less: interest	6,743	6,055	5,163	4,177	3,044	2,477	-	-	27,659
Total principal	20,845	21,520	22,425	23,370	24,475	52,525	-	-	165,160
Bond premium	1,019	1,019	1,019	1,019	1,019	2,040	-	-	7,135
Total principal and note premium	$ 21,864	$ 22,539	$ 23,444	$ 24,389	$ 25,494	$ 54,565	$ -	$ -	$172,295

(amounts expressed in thousands)

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

	Compensated Absences	Other Post Employment Benefits Liability	Claims and Judgments	General Obligation Bonds and Revenue Notes and Premium	Total
Short-term liability	$ 12,137	$ -	$ 509	$ 55,087	$ 67,733
Long-term liability	17,241	14,101	7,300	512,497	551,139
	$ 29,378	$ 14,101	$ 7,809	$ 567,584	$ 618,872

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.

(amounts expressed in thousands)

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2007
Estimated claims liability, July 1	$ 12,729	$ 6,050	$ 9,194
Additions for claims incurred during the year	509	714	630
Changes in estimates for claims of prior periods	(4,715)	6,595	(3,630)
Payments on claims	(714)	(630)	(144)
Estimated claims liability, June 30	$ 7,809	$ 12,729	$ 6,050

At June 30, 2009, approximately $5,345 of tort claims and $6,040 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 $7,809 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 $509. 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.

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 57th Street, Charleston, WV 25304 or by calling 1-888-680-7342.

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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. At June 30, 2009 and 2008, the noncurrent liability related to OPEB cost was $14,101 and $5,071. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $19,296 and $10,267, respectively, during 2009 and $22,605 and $11,622, respectively, during 2008. As of the year ended June 30, 2009, there were 490 retirees receiving these benefits.

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

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

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire June 30, 2010 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, 2009 the Division incurred payroll related expenditures of approximately $31,123 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $18,154 in employer matching contributions to the State Public Retirement System.

- The Division was insured under the West Virginia Workers' Compensation Division until January 1, 2006. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process. During the year ended June 30, 2009 the Division paid approximately $10,140 to BrickStreet Insurance Company for coverage.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated $576,253 at June 30, 2009.

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, 2009, there were approximately 402 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 12: RETIREMENT PLAN

PLAN DESCRIPTION - The Division contributes to the West Virginia Public Employees’ Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee’s final average salary, multiplied by the number of years of the employee’s credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 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% of annual covered payroll, including the Division’s contribution of 10.5% which is established by PERS. Effective July 1, 2009 the Division’s contribution was increased to 11%. The Division’s contributions to PERS for the years ended June 30, 2009, 2008, and 2007 were $18,154, $16,912, and $16,653, respectively, equal to the required contributions for each year.

NOTE 13: RISK MANAGEMENT

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

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

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.

COMPLIANCE AND INTERNAL CONTROL REPORT

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, 2009, and have issued our report thereon dated December 4, 2009. 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Division's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Division's financial statements that is more than inconsequential will not be prevented or detected by the Division's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2009-1, 2009-2, 2009-3, and 2009-4 to be significant deficiencies in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Joint Committee on Government and Finance of the West Virginia Legislature in a separate letter dated December 4, 2009.

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.

Gibbons & Kawash

December 4, 2009

2009-1 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 lives in the Government-wide Financial Statements and depreciated over their estimated useful.

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 $8,824,000 of expenditures for infrastructure assets incurred in the fiscal year ended June 30, 2009 that were not capitalized in the Government-wide Financial Statements as a result of errors in the project completion date in the project management system. The Division's net infrastructure capital assets reported in its Government-wide Financial Statements were $5,539,916,000 at June 30, 2009.

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.

Views of Responsible Officials:
Management Response – Agree: The Program Planning and Administration Division currently generates a number of status reports monthly that check the validity of various aspects of input data. While it is impossible to eliminate all human error from the data entry process, in order to

2009-1 FINANCIAL REPORTING - CAPITAL ASSETS (Continued)

Views of Responsible Officials (Continued):

address the findings of the audit report, the Division will generate an additional status report that examines the feasibility of input construction data on larger jobs (i.e. in excess of $1 million). Specifically, the Project Tracking System will be queried on a monthly basis for projects that have a construction phase cost in excess of $1 million dollars and have durations for actual start and completion dates less than 90 days. While it is conceivable that a project of this magnitude could be completed in that time frame, projects falling into this category will be reviewed by Division staff for accuracy.

2009-2 PAYROLL AUTHORIZATION PROCEDURES

Criteria:
Management of the Division is responsible for establishing and maintaining adequate internal control over the approval of employee payroll transactions.

Condition:
During our testing of payroll approval procedures, we noted that the established procedures related to the approval of daily labor reports (DOH-12) prior to entry into the Division's payroll system were not functioning adequately. Specifically, our sample of 40 employee payroll cash disbursements during the fiscal year ended June 30, 2009 included the following:

- 4 instances in which the DOH-12 was not approved by an appropriate supervisor.
- 8 instances in which the DOH-12 was not signed off by the individual that entered the data into the Division's payroll system.

Cause:
The Division's established procedures for payroll authorization are not functioning as designed.

Context:
The Division's total payroll expense for the fiscal year ended June 30, 2009 was approximately $170 million.

Effect:
Errors or fraud could occur in the amount of time claimed for compensation, charged to a project, and recorded as expenditures without being detected by management.

Recommendation
Management of the Division should enforce and monitor the established procedures over payroll authorization.

Views of Responsible Officials:
Management Response – Agree: The agency operating procedures were recently updated to stress the requirement and importance of supervisor reviews and signatures of the DOT-12 Daily Time Report. Additionally, the requirement for the data entrant to initial each DOT-12 was stressed. There is a compensating control which requires supervisors to review and sign each employee's bi-monthly time sheet.

2009-2 PAYROLL AUTHORIZATION PROCEDURES (CONTINUED)

Views of Responsible Officials(Continued):

Management will address the DOT-12 issues in a reminder memorandum. Additionally, the DOH District Comptrollers will be required to perform monthly, random reviews of organizational DOT-12's for proper and complete signatures. The DOT audit staff will likewise review DOT-12 signatures in their organizational audits.

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS

Criteria:
Management is responsible for establishing and maintaining effective internal controls over financial reporting. Additionally, 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 domain level login process provides for a user lockout after four invalid login attempts, however, the lockout duration is set to zero minutes. Accordingly, the user lockout for invalid login attempts is not functioning.
- For mainframe security (RACF), we noted that the password for a powerful RACF command is stored in a file on the mainframe and that all of the West Virginia Office of Technology programmers have access to this file
- The process to grant, modify, or revoke rights within PRS is not formally documented and reviewed.
- The system backups for the PRS system are made nightly but these backup tapes are not rotated off-site.

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

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

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)

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. Also, data may be lost due to a unforeseen event that impacts the West Virginia State Capitol Complex, specifically, Building five.

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.
- Increase the lockout duration on user accounts after four failed attempts to a reasonable period of time.
- Move the password for the noted RACF command to a secure location that only those with the rights to utilize the command have access
- 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.
- Ensure that the backup tapes for PRS are rotated off-site nightly.

Views of Responsible Officials:
Agree, each bullet point explained.

1. *Management Response - Agree: Information Services is in the process of developing a program to document and track all changes made to PRS and all other programs which may be applicable.*

2. *Management Response - Agree: The Information Services Division agrees that having 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 the changes in a comprehensive detailed manner, however, should the additional programmers be employed more compliance with this finding would be expected.*

3. *Management Response - Agree: The account lockout duration setting determines the number of minutes a locked-out account remains locked out before*

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)

Views of Responsible Officials (Continued):

automatically becoming unlocked. A value of 0 specifies the account will be locked out until an administrator explicitly unlocks it. WVOT will review and update standard password complexity requirements to ensure consistency between standard/policies and implementation of those items.

4. *Management Response - Agree: The RVARY function has not been used in over 10 years, hence the lack of review of RVARY activity. Only System Programmers within the Data Center have access to the SY.CHANGES file. WVOT will take these suggestions under advisement.*

5. *Management Response - Agree: 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. This process will also be formally documented.*

6. *Management Response - Agree: Our server is in the process of being replaced. Once the server is replaced it will reside with the Office of Technology in one of their server rooms and by policy it will have secure backups taken periodically.*

2009-4 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 the accounts receivable subsidiary ledger for non-federal aid earned and unbilled accounts receivable are reconciled to the control account in the Division's general ledger.

Condition:
We noted that the Division does not have established procedures to ensure that the amounts recorded as non-federal aid earned and unbilled receivables are reconciled to the control account in the Division's general ledger.

Cause:
Although, management has established procedures to reconcile the monthly activity (total charges that will be billable and amounts actually billed) in the non-federal aid earned and unbilled accounts receivable, a regularly performed reconciliation procedure between the balances reported in the subsidiary ledger and the general ledger control account for non-federal aid earned and unbilled accounts receivable has not been established.

Context:
During our audit, we found that the general ledger balance was understated by approximately $1.2 million. The total adjusted balance in this account was $9.1 million as of June 30, 2009.

Effect:
Without an effective procedure to reconcile the subsidiary ledger to the general ledger control account for non-federal aid earned and unbilled accounts receivable, errors in recording transactions 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 a procedure to ensure that the general ledger control account balance for non-federal aid earned and unbilled accounts receivable is reconciled to the underlying accounting records and subsidiary ledgers.

2009-4 NON-FEDERAL AID RECEIVABLE RECONCILIATION (Continued)

Views of Responsible Officials:
Management Response – Agree: We concur with the recommendation and will establish a procedure to periodically reconcile the subsidiary ledgers to the general ledger control account for non-federal aid earned and unbilled accounts receivable.