

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2009
AND
INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT

To the Secretary
West Virginia Department of Transportation
Charleston, West Virginia

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, a component unit of the State of West Virginia, as of and for the year ended June 30, 2009, which collectively comprise the West Virginia Department of Transportation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

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

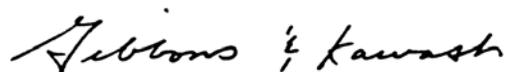
As discussed in Note 1, the financial statements of the West Virginia Department of Transportation are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation and of the State of West Virginia that is attributable to the transactions of the West Virginia Department of Transportation. They do not purport to, and do not, present fairly, the financial position of 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 respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road 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 January 21, 2010, on our consideration of the West Virginia Department of Transportation'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 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 12 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Department of Transportation's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the West Virginia Department of Transportation. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



January 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

This section of the West Virginia Department of Transportation (Department) annual financial report presents our discussion and analysis of the Department'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 Department's financial activities. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Department's total combined net assets are \$7.4 billion as of the close of fiscal year 2009.

Changes in Net Assets - During the year the Department's expenses were \$161 million less than the \$1,176 million generated in revenues for governmental activities. This is a decrease compared to the prior year, when expenses were \$293 million less than revenues.

Revenues and Expenses - Total revenues increased by \$13 million or 1.10%. Total expenses increased by \$99 million or 10.77%. There were no significant changes in the programs carried out by the Department during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2009, the Department's governmental funds reported combined total fund equity of \$341 million, a decrease of \$45 million in comparison to the prior year. Of this total amount, \$299 million represents the "unreserved fund balances" with substantially all being in the general fund. This is approximately 22.95 % of the total governmental fund expenditures for the year.

Long-term Debt - The Department's total outstanding general obligation bonds, net of bond premiums, decreased by \$32 million. The Department's total outstanding special obligation notes, net of note premium, Surface Transportation Improvements Special Obligation Notes increased by \$70 million for a net increase in debt of \$38 million or 7.25.%

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the Department's basic financial statements. The Department'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 Department's financial condition. Changes in the Department's financial position may be measured over time by increases and decreases in the Statement of Net Assets. Information on how the Department'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 Department, excluding discretely presented component units, reporting the Department'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 Department 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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 Department's net assets, excluding discretely presented component units, as of June 30, 2009 and 2008 (amounts in thousands).

Net Assets as of June 30

	2009	2008	% Change
Total current assets	\$ 421,787	\$ 478,304	-11.82%
Capital assets, net of accumulated depreciation	7,656,883	7,402,845	3.43%
Non-current taxes receivable	1,353	4,587	-70.50%
Other non-current assets	2,694	2,468	9.16%
Total assets	8,082,717	7,888,204	2.47%
Total current liabilities	148,651	146,483	1.48%
Long term liabilities	554,218	522,604	6.05%
Total liabilities	702,869	669,087	5.05%
Invested in capital assets, net of related debt	7,144,763	6,886,996	3.74%
Restricted	18,119	17,892	1.27%
Unrestricted	216,966	314,229	-30.95%
Total net assets	\$ 7,379,848	\$ 7,219,117	2.23%

The largest component (96.81%) of the Department'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 Department 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 Department's discretion. The restricted net assets have constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

Condensed Statement of Activities

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets, excluding discretely presented component units, changed during the fiscal year (amounts in thousands):

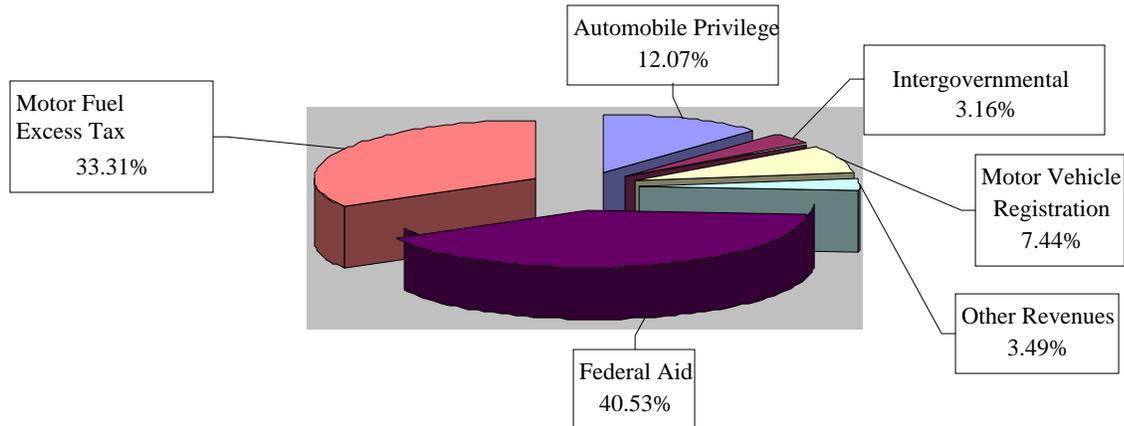
	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Revenues			
Taxes	\$ 534,884	\$ 566,022	-5.50%
Investment and interest income	1,978	9,864	-79.95%
Intergovernmental	37,166	25,499	45.75%
Miscellaneous revenues	<u>29,086</u>	<u>36,841</u>	-21.05%
Total general revenues	<u>603,114</u>	<u>638,226</u>	-5.50%
Capital grants and contributions	479,789	422,616	13.53%
Charges for service	<u>93,423</u>	<u>102,632</u>	-8.97%
Total program revenues	<u>573,212</u>	<u>525,248</u>	9.13%
Total revenues	<u>1,176,326</u>	<u>1,163,474</u>	1.10%
Expenses			
Road maintenance	464,083	410,646	13.01%
Other road operations	425,687	351,894	20.97%
General and administration	99,731	127,377	-21.70%
Interest on long-term debt	22,730	23,692	-4.06%
Unallocated depreciation	<u>3,364</u>	<u>3,262</u>	3.13%
Total expenses	<u>1,015,595</u>	<u>916,871</u>	10.77%
Change in net assets before cumulative effect	160,731	246,603	-34.82%
Cumulative effect of adoption of accounting principle	-	46,771	-100.00%
Net assets, beginning	<u>7,219,117</u>	<u>6,925,743</u>	4.24%
Net assets, ending	<u>\$ 7,379,848</u>	<u>\$ 7,219,117</u>	2.23%

Over time, increases and decreases in net assets measure whether the Department's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$161 million or 2.23% percent.

The Department has decided to report "Licenses, fees and permits" as part of the line item "Charges for service."

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

The following chart depicts the revenues of the Department for the fiscal year



Total revenues increased by approximately \$13 million. Total tax revenues decreased by approximately \$31 million. Federal aid revenue increased by approximately \$57 million or 13.57%. 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%
Aviation Fuel	1,051	1,286	(235)	-18.27%
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	87,465	96,678	(9,213)	-9.53%
Special fees and permits	5,958	5,954	4	0.07%
Federal aid	476,779	419,810	56,969	13.57%
Investment and interest income	1,978	9,864	(7,886)	-79.95%
Intergovernmental	37,166	25,499	11,667	45.75%
Miscellaneous revenues	29,086	36,841	(7,755)	-21.05%
	<u>\$ 1,176,326</u>	<u>\$ 1,163,474</u>	<u>\$ 12,852</u>	1.10%

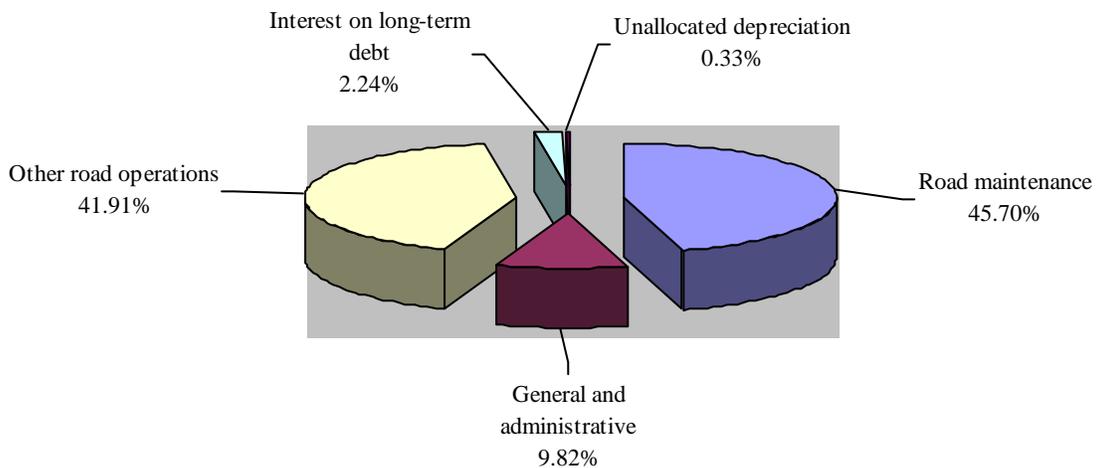
The Department's primary sources of revenue for funding of ongoing administration of the Department, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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 Department will experience little, if any, real growth in the foreseeable future, and it is possible that some programs will be reduced.

The Department 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 Department 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 Department for the fiscal year.



Total expenses increased by approximately \$99 million or 10.77%. 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	99,731	127,377	(27,646)	-21.70%
Interest on long-term debt	22,730	23,692	(962)	-4.06%
Unallocated depreciation	3,364	3,262	102	3.13%
	<u>\$ 1,015,595</u>	<u>\$ 916,871</u>	<u>\$ 98,724</u>	10.77%

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

Operating divisions 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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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 Department's Fund Financial Statements below.

Discretely Presented Component Units:

The State Rail Authority's (Railroad) operating revenues are not sufficient to provide adequate cash flows to meet regular operating needs. During the year ended June 30, 2009 the cash flows from operations were \$(992) thousand compared to \$(335) thousand in the prior year. The Railroad funds capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled \$2.8 million, approximately the same amount as the prior year.

The West Virginia Parkways, Economic Development and Tourism Authority (Parkways) relies on toll revenues, revenues generated through its economic development activities (primarily the Caperton Center) and the operation of travel plaza restaurants and gas stations. Total revenues from these sources decreased \$3.8 million or 5.87% for the fiscal year ended June 30, 2009. Operating expenses decreased by \$0.07 million or 0.10% for the same period primarily due to continued cost savings improvements. Parkways experienced net losses during fiscal years ended June 30, 2009 and 2008 but generated positive cash flows from operating activities in excess of \$21.8 million in 2009 and \$24.8 million in 2008.

Further analysis of changes in the financial results of the discretely presented component units are included in separately issued financial statements of the individual component units, which can be obtained from their respective administrative offices. Addresses and other additional information about the State's component units are presented in the notes to the financial statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S MAJOR FUNDS

At June 30, 2009, the Department reported fund balances of \$341 million. Of this total amount, \$299 million, or 87.88%, constitutes unreserved fund balances, which are 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 Department's largest Fund, and is used to account for all activities not accounted for in other funds. At the end of the 2009 fiscal year, unreserved fund balance of the Fund was \$219 million and reserved fund balance was \$40 million. The total 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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 Department 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 Fund and Budgetary Highlights

The Department 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 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 revenue collections decreased by approximately \$40 million in 2009; they increased \$33 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)
Gasoline, and motor fuel excise tax	\$ 391,903	\$ 395,641	\$ (3,738)	-0.94%
Motor vehicle registration	87,465	96,678	(9,213)	-9.53%
Privilege tax	141,930	169,095	(27,165)	-16.06%
Other taxes and fees	8,968	8,760	208	2.37%
	<u>\$ 630,266</u>	<u>\$ 670,174</u>	<u>\$ (39,908)</u>	-5.95%

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 Department'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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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):

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement - Budgeted funds	\$ 441,658	\$ 381,948	\$ 59,710	15.63%
Federal reimbursement - Surface Transportation Improvements Special Obligation Notes	14,692	14,745	(53)	-0.36%
Federal reimbursement - Emergency funds	4,430	1,530	2,900	189.54%
Other federal aid	<u>15,999</u>	<u>21,587</u>	<u>(5,588)</u>	-25.89%
Total Federal Aid	<u>\$ 476,779</u>	<u>\$ 419,810</u>	<u>\$ 56,969</u>	13.57%

It is anticipated that state revenues will decrease slightly in FY 2010, primarily due to the continued decline in Privilege Tax collections. The Department'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 Department 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 Department 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 Department's reduced funding authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2009, the Department 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 Department 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 Department 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 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Discretely Presented Component Units:

As of June 30, 2009, the discretely presented component units had invested \$521 million, net of accumulated depreciation, in capital assets which primarily consisted of Rail Property, Toll Road infrastructure and the Caperton Center. Depreciation charges for the fiscal year totaled \$33 million. Capital assets declined by approximately 4.05% as \$11 million in capital improvements were offset by the current year's depreciation.

Long-term Debt

Primary Government:

The Department 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 Department had \$371 million in outstanding bonds. The amount outstanding decreased by \$30 million (7.50%) due to net principal payments.

The Department has been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Department issued revenue notes in the amount of \$76 million in October 2006 and \$33 million in April 2007 and \$77 million during fiscal year 2009. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2009, the Department 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: AAA Moody's: Aaa S&P: AAA	\$ 36,025
Safe Roads 01A - Bonds maturing between June 1, 2007 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	36,745
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: 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: AAA Moody's: Aaa S&P: 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: AAA Moody's: Aaa S&P: AAA	26,725
Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) - Notes Maturing on or before June 1, 2016	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	
			76,835
			<u>\$ 536,265</u>

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

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YEAR ENDED JUNE 30, 2009

Discretely Presented Component Units:

The amount of Parkways' outstanding debt is approximately \$7.0 million less at June 30, 2009 than it was in 2008. Parkways has entered into various derivative financial instruments, interest rate swap agreements and forward swap agreements, to enable them to issue variable rate debt instruments and mitigate risk associated with changes in interest rates.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Department 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 at 1900 Kanawha Boulevard, East, Building 5, Room 220, Charleston, West Virginia 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET ASSETS
JUNE 30, 2009
(amounts expressed in thousands)

	Primary Government	Component Units	
	Governmental Activities	Parkways, Economic Development and Tourism Authority	State Rail Authority
ASSETS			
Current assets			
Cash and cash equivalents	\$ 231,961	\$ 22,133	\$ 3,186
Restricted cash and cash equivalents	1	-	-
Short-term investments	-	2,614	-
Accounts receivable, net	86,407	1,389	88
Taxes receivable	60,880	-	-
Accrued interest receivable	-	161	-
Due from other State of West Virginia agencies	799	-	33
Inventories	41,311	2,469	45
Other assets	428	496	1
Total current assets	<u>421,787</u>	<u>29,262</u>	<u>3,353</u>
Non-current assets			
Capital assets not being depreciated			
Land - non-infrastructure	14,519	53,247	4,836
Land - infrastructure	898,613	-	-
Construction in progress	1,068,530	-	-
Capital assets net of accumulated depreciation			
Land improvements	5,548	-	-
Buildings	62,669	44,645	-
Furniture and fixtures	534	-	115
Rolling stock	65,747	3,527	511
Scientific equipment	754	-	-
Shop equipment	53	-	-
Roads	3,794,524	-	-
Bridges	1,745,392	-	-
Toll road	-	382,619	-
Rail property	-	-	31,890
Total capital assets	<u>7,656,883</u>	<u>484,038</u>	<u>37,352</u>
Non-current investments	-	15,408	-
Non-current taxes	1,353	-	-
Other non-current assets	2,694	-	-
Total assets	<u>8,082,717</u>	<u>528,708</u>	<u>40,705</u>
LIABILITIES			
Current liabilities			
Accounts payable	44,414	960	34
Retainages payable	5,980	-	-
Accrued payroll and related liabilities	19,669	5,435	42
Deferred Revenue	604	1,135	3
Due to other State of West Virginia agencies	3,183	-	2
Due to other States	3,208	-	-
Accrued interest payable	3,860	280	-
Current maturities of long term obligations	67,733	7,943	53
Total current liabilities	<u>148,651</u>	<u>15,753</u>	<u>134</u>
Non-current liabilities			
Claims and judgements	7,300	-	-
Compensated absences	18,355	-	-
Other Post Employment Benefits Liability	16,066	1,262	63
Deferred Revenue	-	-	80
Long - term debt obligations	512,497	74,360	-
Total non-current liabilities	<u>554,218</u>	<u>75,622</u>	<u>143</u>
Total liabilities	<u>702,869</u>	<u>91,375</u>	<u>277</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,144,763	401,735	37,352
Restricted			
Restricted by enabling legislation	18,119	-	-
Restricted by trust indenture	-	30,175	-
Unrestricted	216,966	5,423	3,076
Total net assets	<u>\$ 7,379,848</u>	<u>\$ 437,333</u>	<u>\$ 40,428</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

Functions/Programs	Primary Government			Net Revenue (Expenses) and Changes in Net Assets	Component Units
	Expenses	Charges for Services	Capital Grants and Contributions		
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		281,798	194,180	
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	73,569	5,958		(67,611)	
Claims	(4,196)			4,196	
Costs associated with DMV	30,358	87,465		57,107	
Interest on long-term debt	22,730			(22,730)	
Unallocated depreciation	3,364			(3,364)	
	<u>\$ 1,015,595</u>	<u>\$ 93,423</u>	<u>\$ 479,789</u>	<u>(442,383)</u>	
Component units					
Parkways Economic Development and Tourism Authority	\$ 78,362	\$ 60,264	\$ -	-	(18,098)
State Rail Authority	3,982	2,153	6	-	(1,823)
	<u>\$ 82,344</u>	<u>\$ 62,417</u>	<u>\$ 6</u>	<u>-</u>	<u>(19,921)</u>
General revenues					
Taxes:					
Gasoline and motor carrier				391,903	
Aviation fuel				1,051	
Automobile privilege				141,930	
Investment and interest income				1,978	1,341
Gain (loss) on sale of capital assets				-	(128)
Intergovernmental				37,166	3,156
Miscellaneous revenues				29,086	-
Total general revenues				<u>603,114</u>	<u>4,369</u>
Change in net assets				160,731	(15,552)
Net assets, beginning				7,219,117	493,313
Net assets, ending				<u>\$ 7,379,848</u>	<u>\$ 477,761</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009**

(amounts expressed in thousands)

	<u>State Road Fund (Special Revenue)</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets				
Cash and cash equivalents	\$ 144,533	\$ 58,773	\$ 28,656	\$ 231,962
Receivables	85,753	-	654	86,407
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	-	1,430	41,311
Other assets	<u>-</u>	<u>-</u>	<u>428</u>	<u>428</u>
Total assets	<u>\$ 335,701</u>	<u>\$ 58,773</u>	<u>\$ 31,168</u>	<u>\$ 425,642</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 42,243	\$ 1,704	\$ 467	\$ 44,414
Retainages payable	5,980	-	-	5,980
Accrued payroll and related liabilities	19,512	-	157	19,669
Deferred Revenue	604	-	-	604
Due to other funds	5,455	127	-	5,582
Due to other states	-	-	3,208	3,208
Due to other State of West Virginia agencies	<u>3,081</u>	<u>-</u>	<u>2,295</u>	<u>5,376</u>
Total liabilities	<u>76,875</u>	<u>1,831</u>	<u>6,127</u>	<u>84,833</u>
Fund balances				
Reserved for inventories	39,881	-	1,430	41,311
Unreserved, undesignated	<u>218,945</u>	<u>56,942</u>	<u>23,611</u>	<u>299,498</u>
Total fund balances	<u>258,826</u>	<u>56,942</u>	<u>25,041</u>	<u>340,809</u>
Total liabilities and fund balances	<u>\$ 335,701</u>	<u>\$ 58,773</u>	<u>\$ 31,168</u>	<u>\$ 425,642</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

(amounts expressed in thousands)

Total fund balances - governmental funds	\$	340,809
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Amounts reported for governmental activities in the statement of net assets are different because:

Certain receivables will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		5,273
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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	\$	14,519
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		534
Rolling stock		65,747
Scientific equipment		754
Shop equipment		53
Roads		3,794,524
Bridges		1,745,392
		7,656,883

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
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest payable	(3,860)	
Claims and judgments	(7,809)	
Compensated absences	(30,492)	
Other postemployment benefits liability	(16,066)	
Long-term debt obligations	(567,584)	(625,811)
		(625,811)

Net assets of governmental activities	\$	7,379,848
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**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	\$ 391,903	\$ -	\$ -	\$ 391,903
Aviation fuel	-	-	1,051	1,051
Automobile privilege	141,930	-	-	141,930
Industrial access roads	3,010	-	-	3,010
License, fees and permits				
Motor vehicle registrations and licenses	87,255	-	4,412	91,667
Special fees and permits	5,958	-	-	5,958
Federal aid	446,088	14,692	15,999	476,779
Investment and interest income, net of arbitrage rebate	1,716	203	59	1,978
Intergovernmental	27,924	-	8,245	36,169
Miscellaneous revenues	28,649	-	439	29,088
	<u>1,134,433</u>	<u>14,895</u>	<u>30,205</u>	<u>1,179,533</u>
Expenditures				
Current				
Road maintenance				
Express way, 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	-	23,752	91,092
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
	<u>1,228,677</u>	<u>52,768</u>	<u>23,752</u>	<u>1,305,197</u>
Excess (deficiency) of revenues over expenditures	(94,244)	(37,873)	6,453	(125,664)
Other financing sources (uses)				
Sale of bonds	-	80,964	-	80,964
Net change in fund balances	(94,244)	43,091	6,453	(44,700)
Fund balances, beginning of year	<u>353,070</u>	<u>13,851</u>	<u>18,588</u>	<u>385,509</u>
Fund balances, end of year	<u>\$ 258,826</u>	<u>\$ 56,942</u>	<u>\$ 25,041</u>	<u>\$ 340,809</u>

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

(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ (44,700)

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)

Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year. (4,143)

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 \$ (259), increase in other postemployment benefits liability of \$ (10,231), amortization of bond issue cost of \$ (368) and increase in interest payable of \$ (730), exceed the decrease in claims of \$ 4,920 and the accretion of bond premium of \$ 2,481. (4,187)

Change in net assets of governmental activities \$ 160,731

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)
	<u>1,126,285</u>	<u>94,489</u>	<u>1,220,774</u>	<u>1,126,604</u>	<u>(94,170)</u>
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
	<u>1,191,938</u>	<u>139,239</u>	<u>1,331,177</u>	<u>1,207,514</u>	<u>123,663</u>
Excess (deficiency) of revenues over expenditures	(65,653)	(44,750)	(110,403)	(80,910)	29,493
Fund balance, beginning of year	<u>165,781</u>	<u>43,041</u>	<u>208,822</u>	<u>208,822</u>	<u>-</u>
Fund balance, end of year	<u>\$ 100,128</u>	<u>\$ (1,709)</u>	<u>\$ 98,419</u>	<u>\$ 127,912</u>	<u>\$ 29,493</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, (the "Department") 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 Department was created as a department within the executive branch of the State of West Virginia (the "State") government by an Act of the West Virginia Legislature, effective July 1, 1989. The Department is headed by the Secretary of Transportation, who is appointed by the Governor with the approval of the Senate. The Department administers the entities statutorily assigned to it.

The Governor appoints the commissioners and authority members of the entities included in the Department. The entities are considered to be component units of the State. The financial statements of the Parkways, Economic Development and Tourism Authority and the State Rail Authority are discretely presented in the comprehensive annual financial report of the State, while the financial statements of the other entities are blended with the financial data of the State.

The financial statements of the Department are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the State of West Virginia that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of 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.

These financial statements include the component units of the State that are administered by the Department. Following are descriptions of entities included in these financial statements:

DIVISION OF HIGHWAYS - The Division of Highways is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia 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 of Highways is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the Legislature.

DIVISION OF MOTOR VEHICLES - The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation which collects registration fees, license fees, and automobile privilege taxes for expenditure by the Division of Highways, as well as other motor vehicle fees. The expenditures related to the collection of registration fees, license fees, and automobile privilege taxes are recorded in the State Road Fund within the Division of Highways.

DIVISION OF PUBLIC TRANSIT - The Division of Public Transit is under the supervision of the Secretary of Transportation. The West Virginia Department of Transportation, through the Division of Public Transit, is designated as the agency of the State responsible for administering all federal and state programs relating to public transportation. The Division of Public Transit assists in the development of improved public transportation facilities, services, equipment, techniques and methods, with the cooperation of transportation carriers, both public and private.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AERONAUTICS COMMISSION - The West Virginia Aeronautics Commission has general supervision and control over all airports used for commercial purposes, all state and municipal airports, all air schools, and all phases of aeronautics within the State. The Commission consists of five members, four appointed by the Governor with the consent of the Senate, and the fifth member is the Secretary of Transportation.

PUBLIC PORT AUTHORITY - The West Virginia Public Port Authority is under the supervision of the Secretary of Transportation. The Authority assesses specific transportation needs and considers feasibility studies for the purpose of determining the best site locations for transportation centers, terminals, ports and harbors, and foreign trade zones. The authority consists of eleven members, including the Secretary of Transportation, who serves as the chairman, and ten individuals who are appointed by the Governor with the advice and consent of the Senate.

COMPONENT UNITS - Management has considered all potential component units to be included in the Department'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 Department is financially accountable, or organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statements to be misleading or incomplete. In conformity with accounting principles generally accepted in the United States of America, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS - The component units' columns in the financial statements include the financial data of the Department's two component units. These units are reported in separate columns to emphasize that they are legally separate from the Department. Separately issued independent audit reports for each of the discretely presented component units may be obtained from West Virginia Department of Transportation, Division of Highways, Finance Section, Building 5, Room A-220, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0430 or from the respective component units at the addresses presented below.

STATE RAIL AUTHORITY - The State Rail Authority (Railroad) is responsible for state-wide rail planning and the operation of the South Branch Valley Railroad (SBVRR) and West Virginia Central Railroad (WVCRR). It can issue bonds and receives federal and state grants to supplement the cost of operations of the SBVRR. The board consists of seven members, six members appointed by the Governor and the seventh member is the Secretary of Transportation. Address: 120 Water Plant Drive, Moorefield, West Virginia 26836

PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY - The responsibilities of the West Virginia Parkways, Economic Development and Tourism Authority (Parkways) include the operation and maintenance of the West Virginia Turnpike. Parkways can issue bonds and set rates for using the turnpike. The State's Governor or his designee serves as chairman and the State's Secretary of Transportation serves as a board member. The other five Parkways members are appointed by the Governor with the approval of the Senate. Address: 3310 Piedmont Road, Charleston, West Virginia 25311.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Department employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Department, 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 Department 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 Department 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 (Special Revenue) Fund - This fund is used to account for specific revenues that are legally restricted to expenditures for particular purposes. 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

The Department reports the following proprietary funds which are presented as discretely presented component units:

- State Rail Authority (Proprietary) Fund - This fund accounts for the activities of the Railroad, a discretely presented component unit of the Department. The Railroad is responsible for state-wide rail planning and the operation of the SBVRR and WVCRR.
- Parkway, Economic Development and Tourism Authority (Proprietary) Fund - This fund accounts for the activities of Parkways, a discretely presented component unit of the Department. Parkways is responsible for operation and maintenance of the West Virginia Turnpike.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

BUDGETING AND BUDGETARY CONTROL - Except for Parkways, the Department'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 Department's overall financial plan, which includes revenue estimates developed by the Department 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 for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each division as a whole must be approved by the State Legislature.

The Department's State Road (Special Revenue) Fund which includes the A. James Manchin Fund (Special Revenue Fund) has a legislatively approved budget. In addition, with the exception of the debt service fund, all divisions included in the financial statements as other governmental funds, have an annual appropriated budget of expenditures. However, the capital projects fund, debt service fund, and certain monies reported within the State Road Fund for accounting principles generally accepted in the United States of America purposes, are not considered appropriated funds in accordance with the Department's budgetary reporting policy. Accordingly, these funds have not been reported in the Department's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the deficiency of revenues over expenditures 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		<u>29,384</u>
 Deficiency of revenues over expenditures - GAAP basis	 \$	 <u>(94,244)</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Except for Parkways, 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 Department at rates specified by the BTI based on the balance of the Department'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.

Parkways and the Railroad maintain unrestricted and restricted cash deposits with financial institutions. Such deposits are either fully insured or collateralized by State or United States Government Securities.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS - Investments are reported at fair value and realized and unrealized gains and losses are reported in the statement of activities as a component of investment income.

INVENTORIES - Except for Parkways, the Department's 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. Parkways' inventories are valued at the lower of cost (first-in, first-out method) or market.

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 Department, such as roads, bridges, toll roads, rail properties, and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Department 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.

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. Except for discretely presented component units, 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 Department 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 Department 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 30 - 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 year
- Toll Road Infrastructure 10 - 50 years
- Rail Property 5 - 35 years

ACCOUNTS AND TAXES RECEIVABLE - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily gasoline and wholesale fuel taxes and automobile privilege taxes, which are collected within sixty 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 Department 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 Department's legal section determine that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

COMPENSATED ABSENCES - Department 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 vacation, sick leave, and post employment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-employment health insurance as a liability.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Department 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 Department'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 Department, 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 Department'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 Department, 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.

NEWLY ADOPTED STATEMENTS ISSUED BY THE GASB —

During 2009, the Department 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 Department 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 Department adopted GASB Statement No. 56 upon issuance.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Department 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 Department has not yet determined the effect that the adoption of GASB Statement No. 53 may have on the financial statements.

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

NET ASSETS - The Department displays net assets in the following three components, if applicable:

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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	\$ 40,442	\$ 40,442
Cash on deposit with State Treasurer in Debt Service Fund	12	12
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	125,318	125,318
Cash on deposit with State Treasurer invested in BTI WV Government Money Market Pool	57,557	57,557
Deposits with financial institutions	1	1
Cash in transit	50	50
Cash on hand	2,652	2,652
	<u>\$ 231,962</u>	<u>\$ 231,962</u>

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 Department 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

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

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 Department's ownership represents 4.88%.

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 Department'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):

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating *		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
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 Department's ownership represents 1.88% of these amounts held by BTI.

Interest Rate Risk

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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 DA YS
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	<u>150,223</u>	1
	<u>\$ 2,570,261</u>	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 DA YS
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	<u>132</u>	1
	<u>\$ 283,826</u>	51

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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	W A M DA YS
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	<u>6,426</u>	1
	<u>\$ 314,932</u>	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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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 Department 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 Department note trust indenture places no limit on the amount the Department 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 Department will not be able to recover the value of the investment that is in the possession of an outside party. The Department does not have a policy for custodial credit risk. As of June 30, 2009, \$1 of the Department's investments was invested in the Huntington Treasury Money Market IV and VII.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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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.

Security Type	Carrying Value	Investment Maturity in Years			
		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.

Discretely Presented Component Units:

State Rail Authority - The State Rail Authority maintains deposits with the STO that are pooled funds managed by the BTI. These funds are subject to the BTI WV Money Market Pool policies and procedures above. The State Rail Authority ownership represents .12% of these amounts held by the BTI. The carrying amount of these deposits does not differ materially from the bank balance at June 30.

Parkways - Parkways has adopted investment guidelines that are consistent with those specified in the bond trust indentures for its outstanding bonds. Those guidelines authorize Parkways to invest all bond proceeds and other revenues in obligations of the United States and certain of its agencies, certificates of deposit, direct and general obligations of states, repurchase agreements relating to certain securities, and guaranteed investment contracts. Investments are managed by the financial institution serving as the trustee for Parkways. Parkways has not adopted a formal investment policy beyond the requirements of the bond indentures.

Interest Rate Risk - Investments

As a means of limiting its exposure to fair value losses resulting from rising interest rates, Parkways bond indentures limit at least half of the Parkways investment portfolio to maturities of less than five years. As of June 30, 2009, Parkways had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1-5	6-10	10+
Mutual bond funds	\$ 18,509	\$ 18,509	\$ -	\$ -	\$ -
Government agency bonds	7,623	1,314	836	1,683	3,790
State government bonds	767	560	-	207	-
Corporate bonds	<u>9,632</u>	<u>740</u>	<u>4,220</u>	<u>4,376</u>	<u>296</u>
	<u>\$ 36,531</u>	<u>\$ 21,123</u>	<u>\$ 5,056</u>	<u>\$ 6,266</u>	<u>\$ 4,086</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk - Investments

As of June 30, 2009, Parkways had investment balances with the following issuers which were greater than or equal to 5% of the total investment balance:

<u>Type</u>	<u>Issuer</u>	<u>Percentage of Investments</u>
Mutual bond funds	Federated Government Obligations Fund	48%
Government agency bonds	Federal Home Loan Mortgage Corp.	6%
	Federal National Mortgage Association	6%
	Government National Mortgage Association	5%
Corporate bonds	General Electric	5%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were \$3,625 at June 30, 2009. These deposits, which had a bank balance of \$4,097, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in Parkways' name by its agent.

Credit Risk - Investments

The following table provides information on the credit ratings of Parkways' investments:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>
Corporate bonds	A	A1	AA-	\$ 475
Corporate bonds	A+	A3	BBB+	505
Corporate bonds	BB	Baa3	BB+	167
Corporate bonds	n/r	A1	A+	98
Corporate bonds	AA-	Aa3	A+	595
Corporate bonds	A	A2	A	652
Corporate bonds	C	Ca	CC	59
Corporate bonds	n/r	Aa2	AA+	1,863
Corporate bonds	A-	A2	A	118
Corporate bonds	A+	A1	A	1,049
Corporate bonds	n/r	AAA	n/r	236
Corporate bonds	A-	A3	A	95
Corporate bonds	AA-	A3	A	590
Corporate bonds	BBB	A3	BBB-	348
Corporate bonds	n/r	n/r	BBB-	339
Corporate bonds	A+	A2	A	150
Corporate bonds	A+	A3	A	237
Corporate bonds	n/r	Aa3	A+	196
Corporate bonds	A+	A2	AA-	91
Corporate bonds	n/r	A2	AA-	122
Corporate bonds	BBB	Baa2	A	329
Corporate bonds	n/r	Aaa	AAA	294
Corporate bonds	AAA	Aaa	AAA	109
Corporate bonds	A	n/r	A-	60
Corporate bonds	AA-	A1	AA-	569
Corporate bonds	A+	A1	Aa3	286
				9,632

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk – Investments (Continued)

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>
Government agency bonds	n/r	Aaa	AAA	\$ 1,652
Government agency bonds	n/r	Aaa	n/r	611
Government agency bonds	n/r	AAA	n/r	5,049
Government agency bonds	AAA	Aaa	AAA	<u>311</u>
				<u>7,623</u>
 Mutual bond funds	 AAA	 Aaa	 AAAm	 <u>18,509</u>
State government bonds	n/r	A3	n/r	267
State government bonds	n/r	A2	AAA	<u>500</u>
				<u>767</u>
				<u>\$ 36,531</u>

n/r – not rated by specific rating agency

Credit risk is managed by limiting investments to the following types of debt securities in accordance with Parkways' bond indentures: direct obligations of or obligations guaranteed by the United States of America, the State of West Virginia or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, and corporate indebtedness meeting certain requirements.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Parkways will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2009, Parkways held no securities that were subject to custodial credit risk.

Foreign Currency Credit Risk - All Investments

There are no securities that are subject to foreign currency risk.

Other Information

A reconciliation of the investments disclosed in this Note to the amounts reported in the Statement of Net Assets is as follows:

As disclosed in this Note:	
Total deposits	\$ 3,625
Total other investments	<u>36,531</u>
	<u>\$ 40,156</u>
As reported on the Statement of Net Assets:	
Cash and cash equivalents	\$ 22,133
Short-term investments	2,614
Investments in securities maturing beyond one year	<u>15,408</u>
	<u>\$ 40,156</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The cost of investment securities and related accrued interest receivable is allocated at June 30, 2009, among the following restricted accounts created under the various Trust Indentures or by the adoption of Parkways’ resolution:

	<u>2009</u>
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1993, 2002, and 2008 Reserves	\$ 10,808
Renewal and Replacement	10,077
Operating and Maintenance	4,164
Series 2001 Debt Service	114
Series 2002 Debt Service	618
Series 2008/2003 Debt Service	936
Insurance Liability	1,000
Economic Development and Tourism	8,357
	36,074
Reserve Revenue, restricted by Tri-Party Agreement	835
Facility Improvement	1,347
	38,256
Total restricted and designated assets	\$ 38,256

The assets restricted by the 1993 Trust Indentures, as supplemented, must be used for construction, turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1993, 2002, 2003, and 2008 Reserve Account equal maximum annual debt service for such bonds. The balance in the 1993, 2002, 2003, and 2008 Debt Service Accounts are required by the Trust Indentures to have a balance equal to accrued debt service for the current year plus one-twelfth of the debt service which will accrue in the next succeeding fiscal year. The Trust Indentures also require that a reserve be established for Renewal and Replacement that equals the consulting engineer’s recommendations for the year. The Operations and Maintenance Account is required by the Trust Indentures to maintain a balance equal to one-eighth of budgeted operating expenses for the fiscal year.

The Insurance Liability account is a self-insured fund that covers Parkways against risk of loss from natural disaster, among other items, and is designated as Parkways’ percentage of contribution in the event of a disaster.

The Economic Development and Tourism Account is designated to be used for economic development and tourism projects by Parkways. All revenues derived from these projects, including recovery of principal, are pledged as security for the 2001A and 2001B Bonds.

The Reserve Revenue Account, restricted by the Tri-Party Agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and Parkways can only be used for maintenance and operation of the Turnpike and for debt service.

The Facility Improvement Account was established in March 2004 by dedicating funds from the superload fees that are collected by the Division of Highways on Parkways’ behalf. This fund will be used at the Board’s discretion for either facility repairs and improvements or as a sinking fund for future facilities rehabilitation.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Contingency Highway and Bridge Reserve Account, established by Parkways and restricted by the Tri-Party Agreement, was established in February 2002 in the event that Parkways needed additional cash or liquidity for highway and bridge projects for any reason (for example, without limitation, due to unanticipated traffic reductions resulting in toll revenue reductions, unanticipated cost overruns on one or more projects, the need to begin or complete a project before originally planned, terrorist events, or failure to achieve all anticipated savings from the issuance of the Series 2002 and 2003 Refunding Bonds). This reserve is not a requirement by the bondholders and will not be used to pay debt service on any bonds of Parkways, but it will be used at the Board's discretion for costs of highway and/or bridge projects in extraordinary situations.

NOTE 3: ACCOUNTS RECEIVABLE

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

	Primary Government	Component Units
Federal aid billed and not paid	\$ 21,260	\$ -
Federal aid earned but not billed	51,333	-
Total federal aid receivable	72,593	-
Other receivables	14,306	1,477
Combined total receivables	86,899	1,477
Less: allowance for uncollectibles	(492)	-
Net accounts receivable	\$ 86,407	\$ 1,477

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	\$ 23,891	
Motor fuel excise taxes	36,053	
Registration fees	2,289	
Less: Long-term portion	(1,353)	
Current taxes receivable		\$ 60,880

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end \$1,353 is not expected to be collected within one year and is classified as a long term receivable.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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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:

	<u>Primary Government</u>	<u>Component Units</u>
Department of Administration	\$ 518	\$ -
Other agencies	<u>281</u>	<u>33</u>
	<u>\$ 799</u>	<u>\$ 33</u>

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

	<u>Primary Government</u>	<u>Component Units</u>
Public Employees Insurance Agency	\$ 1,717	\$ -
Public Employee's Retirement	1,307	-
Other agencies	<u>159</u>	<u>2</u>
	<u>\$ 3,183</u>	<u>\$ 2</u>

NOTE 6: INVENTORIES

Inventories at June 30, 2009 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Materials and supplies	\$ 30,991	\$ 2,514
Equipment repair parts	7,746	-
Gas and lubrication supplies	<u>2,574</u>	<u>-</u>
	<u>\$ 41,311</u>	<u>\$ 2,514</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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	\$ 16,156	\$ -	\$ 1,637	\$ 14,519
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	2,259,114	674,991	952,443	1,981,662
Capital assets being depreciated:				
Buildings	101,118	1,300	19	102,399
Furniture and fixtures	8,997	54	176	8,875
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	9,208,632	840,532	15,973	10,033,191
Less accumulated depreciation:				
Buildings	36,924	2,825	19	39,730
Furniture and fixtures	8,363	154	176	8,341
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	4,064,901	308,379	15,310	4,357,970
Total capital assets being depreciated, net	5,143,731	532,153	663	5,675,221
Governmental activities capital assets, net	\$ 7,402,845	\$ 1,207,144	\$ 953,106	\$ 7,656,883

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 Department.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 7: CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

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

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets not being depreciated:				
Land - non infrastructure	\$ 50,493	\$ -	\$ -	\$ 50,493
Land - infrastructure	7,590	-	-	7,590
Total capital assets not being depreciated	<u>58,083</u>	<u>-</u>	<u>-</u>	<u>58,083</u>
Capital assets being depreciated:				
Buildings	96,799	50	-	96,849
Furniture and fixtures	451	-	-	451
Rolling stock	10,143	305	-	10,448
Infrastructure - roads	815,899	8,344	-	824,243
Infrastructure - Rail Property	44,929	2,397	243	47,083
Total capital assets being depreciated	<u>968,221</u>	<u>11,096</u>	<u>243</u>	<u>979,074</u>
Less accumulated depreciation:				
Buildings	48,794	3,410	-	52,204
Furniture and fixtures	325	11	-	336
Rolling stock	5,644	766	-	6,410
Infrastructure - roads	414,264	27,360	-	441,624
Infrastructure - Rail Property	13,899	1,408	114	15,193
Total accumulated depreciation	<u>482,926</u>	<u>32,955</u>	<u>114</u>	<u>515,767</u>
Total capital assets being depreciated, net	<u>485,295</u>	<u>(21,859)</u>	<u>129</u>	<u>463,307</u>
Governmental activities capital assets, net	<u>\$ 543,378</u>	<u>\$ (21,859)</u>	<u>\$ 129</u>	<u>\$ 521,390</u>

Current year depreciation totaled \$32,955.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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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.

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 revenue notes payable net of premium				101,931	81,506	11,142	172,295
Claims and judgments				12,729	-	4,920	7,809
Compensated absences				30,233	544	285	30,492
Other postemployment benefits				5,835	10,231	-	16,066
Total long-term obligations				\$ 577,991	\$ 96,812	\$ 52,852	\$ 621,951

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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	<u>18,405</u>	<u>16,828</u>	<u>15,130</u>	<u>13,388</u>	<u>12,133</u>	<u>42,793</u>	<u>20,274</u>	<u>1,120</u>	<u>140,071</u>
Total principal	31,590	33,165	34,865	25,230	24,840	101,720	97,300	22,395	371,105
Bond premium	<u>1,633</u>	<u>1,586</u>	<u>1,546</u>	<u>1,494</u>	<u>1,494</u>	<u>7,469</u>	<u>7,469</u>	<u>1,493</u>	<u>24,184</u>
Total principal and bond premium	<u>33,223</u>	<u>34,751</u>	<u>36,411</u>	<u>26,724</u>	<u>26,334</u>	<u>109,189</u>	<u>104,769</u>	<u>23,888</u>	<u>395,289</u>
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	<u>6,743</u>	<u>6,055</u>	<u>5,163</u>	<u>4,177</u>	<u>3,044</u>	<u>2,477</u>	<u>-</u>	<u>-</u>	<u>27,659</u>
Total principal	20,845	21,520	22,425	23,370	24,475	52,525	-	-	165,160
Bond premium	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>2,040</u>	<u>-</u>	<u>-</u>	<u>7,135</u>
Total principal and note premium	<u>\$ 21,864</u>	<u>\$ 22,539</u>	<u>\$ 23,444</u>	<u>\$ 24,389</u>	<u>\$ 25,494</u>	<u>\$ 54,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$172,295</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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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	<u>18,355</u>	<u>16,066</u>	<u>7,300</u>	<u>512,497</u>	<u>554,218</u>
	<u>\$ 30,492</u>	<u>\$ 16,066</u>	<u>\$ 7,809</u>	<u>\$ 567,584</u>	<u>\$ 621,951</u>

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 Department 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(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.

	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
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	<u>(714)</u>	<u>(630)</u>	<u>(144)</u>
Estimated claims liability, June 30	<u>\$ 7,809</u>	<u>\$ 12,729</u>	<u>\$ 6,050</u>

At June 30, 2009, approximately \$5,345 of tort claims and \$6,040 of construction claims, including non-incremental claims, were pending against the Department in the West Virginia State Court of Claims. With respect to these claims, the Department 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 Department may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Department'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 Department 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.

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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 \$16,066 and \$5,835. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$21,528 and \$11,286 respectively, during 2009 and \$25,230 and \$12,796, respectively, during 2008. As of the year ended June 30, 2009, there were 505 retirees receiving these benefits.

Discretely Presented Component Units:

State Rail Authority

The following is a summary of the compensated absences for the year ended June 30, 2009:

<u>Year ending June 30</u>	<u>Short term Compensated Absences</u>	<u>Long term Other Postemployment Benefits Liability</u>
2009	\$ 52	\$ 63

Postemployment Benefits Other than Pensions

With the adoption of GASB Statement No. 45 for the year ended June 30, 2008, Other Post Employment Benefits (OPEB) costs are accrued based on invoices received from PEIA which uses actuarial determined amounts. At June 30, 2009 and 2008, the noncurrent liability related to OPEB costs was \$63,046 and \$29,474. For the year ended June 30, 2009, the total of OPEB expense incurred and the amount of OPEB expense that related to retirees was \$79,458 and \$0. As of the year ended June 30, 2009, there were no retirees receiving these benefits.

Parkways - Long-term debt obligations of Parkways consisted of the following at June 30, 2009:

Revenue bonds payable	\$ 73,754
Capital leases	<u>606</u>
	<u>\$ 74,360</u>

Capital Leases - Parkways entered into - capital leases during the fiscal years 2006 and 2008 - the equipment has a carrying value of \$1,947 at June 30, 2009. Future minimum lease payments are as follows for the years ending June 30:

2010	\$ 538
2011	363
2012	228
2013	<u>72</u>
	1,201
Less amount representing interest	(57)
Less current portion	<u>(538)</u>
	<u>\$ 606</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds - Revenue bonds payable consisted of the following at June 30, 2009:

Series 2001A Taxable Serial Bonds, issued \$5,695 in December 2001 at 4.75% to 7.00%, due in varying installments from June 2002 through June 2011	\$ 1,465
Series 2001B Bonds, issued serial bonds of \$1,505 in December 2001 at 3.50% to 5.00%, due in varying installments from June 2003 through June 2011	570
Series 2001B term bonds, \$2,090 at 5.00% due June 2013	2,090
Series 2001B term bonds, \$2,305 at 5.125% due June 2015	2,305
Series 2002 Serial Bonds, issued \$44,205 in February 2002 at 3.50% to 5.25%, due in varying installments from May 2002 through May 2019	28,700
Series 2008 Variable Rate Demand Revenue Refunding Bonds, \$59,100 at variable rates, due in varying installments through May 2019	<u>54,800</u>
Total revenue bonds payable	\$ 89,750
Add:	
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	1,441
Less:	
Unamortized deferred loss on advance refunding	(9,073)
Unamortized discount and issuance costs	(959)
Current portion of revenue bonds payable	<u>(7,405)</u>
	<u>\$ 73,754</u>

The Revenue Bonds under the 1993, 2002 and 2008 Trust Indentures are secured by a pledge of substantially all Parkways operating revenues and all monies deposited into accounts created by the Trust Indentures.

In 2002, \$5,695 of Raleigh County, West Virginia, Taxable Commercial Development Revenue Refunding Bonds, Series 2001A and \$5,900 of Commercial Development Revenue Bonds, Series 2001B (the Series 2001 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the issuer), and a Trust Indenture, dated December 1, 2001 (the Indenture). The bond proceeds of the Series 2001A were used to advance refund \$1,735 of the Series 1994 Bonds and \$4,075 of the Series 1996 Bonds. The advance refunding resulted in a \$491 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2011, approximated \$60 in 2009. The Series 2001B Bonds were issued to construct and furnish an expansion of the Caperton Center. The Series 2001 Bonds are limited obligations of the Issuer payable solely from loan payments by Parkways pledged under the Indenture, and are also secured equally and ratably by a Trust Agreement among Parkways, the Issuer and a trustee, wherein Parkways has pledged certain non-toll revenues of Parkways including

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

(i) net revenues of the Caperton Center; (ii) certain interest and other investment earnings; and (iii) gross revenues derived from concessionaire or other contracts with third parties relating to operations conducted by such third parties at any of Parkways' service plazas. Toll revenues derived by Parkways in connection with the operation of the Turnpike are not pledged or otherwise available to pay debt service on the Series 2001 Bonds. Parkways completed the advance refunding to remove certain restrictive indenture requirements of the Series 1994 and Series 1996 bonds. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$583.

Principal and interest paid on the Series 2001 and 2002 bonds for the year ended June 30, 2009 was \$5,037, and the total pledged net revenues were \$22,633.

Additionally in 2002, \$44,205 of Revenue Refunding Bonds were issued for the express purpose of defeasing \$36,036 of Series 1993 Bonds. The advance refunding resulted in a \$6,313 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$270 in 2009. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$3,003 over an 18-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,624.

In 2003, Parkways issued \$63,900 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$61,280 of Parkways' Series 1993 Bonds. This refunding resulted in a \$7,896 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$0 in 2009. Parkways completed the refunding to reduce its aggregate debt service payment by \$7,270 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,851.

In July 2008, Parkways issued \$54,800 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$54,800 of Parkways' Series 2003 Bonds. This refunding resulted in a \$5,972 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$543 in 2009. Parkways completed the refunding to remove the requirement for bond insurance that was included in the Series 2003 Bonds.

Principal and interest paid on the Series 2008 bonds for the year ended June 30, 2009 was \$7,028 and the total pledged revenues were \$7,093.

The Series 2008 bonds bear interest at the Weekly Interest Rate determined by the remarketing agent on Tuesday of each week. Parkways has entered into an interest rate swap agreement on the Series 2003 bonds that were transferred to the Series 2008, as follows:

Objective of the Interest Rate Swap

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, Parkways entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change Parkways' variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Terms of the Interest Rate Swap

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of \$63,900 matches the \$63,900 variable rate bonds, Series 2003 and exceeds the amount of the Series 2008 bonds. The swap was entered at the same time the bonds were issued (February 14, 2003).

Due to an Alternative Floating Rate Date, which occurred September 3, 2003, under the swap, Parkways pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on the Weekly Interest Rate determined by the Remarketing Agent.

Credit Risk

As of June 30, 2009, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings, AA- by Standards & Poor's and AA2 by Moody's Investor's Service as of June 30, 2009.

Basis Risk

The swap exposes Parkways to basis risk should the relationship between LIBOR and the Bond Market Association Municipal Swap Index (BMA) converge, causing a change in the floating rate on the swap. This Alternative Floating Rate Date occurred September 3, 2003. As a result, the expected cost savings have not been realized.

Termination Risk

Parkways or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, Parkways would be liable to the counterparty for a payment equal to the swap's fair value.

Fair Value

Because the variable interest rates related to the swap have declined further, the swap had a negative fair value of \$4,613 as of June 30, 2009. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Swap Payments and Associated Debt

Using rates as of June 30, 2009, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2010	\$ 4,300	\$ 1,507	\$ 1,023	\$ 6,830
2011	4,700	1,666	663	7,029
2012	4,700	1,511	631	6,842
2013	5,200	1,356	533	7,089
2014	5,200	1,184	470	6,854
2015-2019	<u>30,700</u>	<u>3,127</u>	<u>1,200</u>	<u>35,027</u>
	<u>\$ 54,800</u>	<u>\$ 10,351</u>	<u>\$ 4,520</u>	<u>\$ 69,671</u>

The following schedule summarizes the revenue bonds outstanding as of June 30, 2009:

2009	Beginning Balance	Additions	Retired	Amortizations	Ending Balance	Due Within One Year
Series 2001	\$ 6,935	\$ -	\$ (845)	\$ 61	\$ 6,151	\$ 900
Series 2002	\$ 28,030	\$ -	\$ (2,185)	\$ 270	26,115	\$ 2,205
Series 2003	\$ 53,128	\$ -	\$ (53,128)	\$ -	-	\$ -
Series 2008	\$ -	\$ 52,602	\$ (4,300)	\$ 591	48,893	\$ 4,300
	<u>\$ 88,093</u>	<u>\$ 52,602</u>	<u>\$ (60,458)</u>	<u>\$ 922</u>	<u>\$ 81,159</u>	<u>\$ 7,405</u>

Debt service requirements for the Revenue Bonds subsequent to June 30, 2009, are as follows:

	Year Ended June 30	Principal Maturities	Interest, Including Accretion	Total
	2010	7,405	4,228	11,633
	2011	8,090	3,870	11,960
	2012	7,120	3,503	10,623
	2013	9,985	3,084	13,069
	2014	7,910	2,666	10,576
	2015-2019	<u>49,240</u>	<u>6,746</u>	<u>55,986</u>
		<u>\$ 89,750</u>	<u>\$ 24,097</u>	<u>\$ 113,847</u>
Add:				
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds		1,441		
Less:				
Unamortized deferred loss on advance refunding		(9,073)		
Unamortized discount and issuance costs		(959)		
Current portion of revenue bonds payable		<u>(7,405)</u>		
		<u>\$ 73,754</u>		

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for the Bonds to maintain their tax-exempt status. At June 30, 2009, Parkways' estimated arbitrage rebate liability was zero.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Postemployment Benefits Other than Pensions

Plan Description

Parkways participates in the West Virginia Other Postemployment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan 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 Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia 25304-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 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.

Parkways' contributions to the OPEB Plan for the year ended June 30, 2009 was \$797 and the billed ARC was \$1,575. During the year ended June 30, 2009, Parkways received on-behalf payments from the WVPEIA in the amount of \$0. This results in a net ARC liability of \$1,261, which is included in Parkways' liabilities as of June 30, 2009.

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

The Department 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 Department leases from the Department of Administration substantially all of State Office Building No. 5, a portion of State Office Building No. 3 and Division of Motor Vehicles Building in Weirton which are owned by the State Building Commission. The Department may be released from its obligation only at the option of the lessor. The Department is obligated under these operating leases, which expire June 30, 2010 for rental payments of approximately \$2.4 million annually. Management expects the leases to be renewed upon expiration.
- The Department'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 Department incurred payroll related expenditures of approximately \$34,118 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$19,838 in employer matching contributions to the State Public Retirement System.
- The Department 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 Department paid approximately \$10,120 to BrickStreet Insurance Company for coverage.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 11: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Department with various contractors approximated \$576,253 at June 30, 2009. In addition, Parkways had contractual commitments totaling \$5,880 for various Turnpike System improvement projects.

The Department participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected by the Department, 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 Department expects such amounts, if any, to be immaterial to the financial position of the Department. The Department records these disallowed costs in the period the audit is finalized.

Based on the Department's Inspection Program the Division has reviewed the information on obsolete and deficient bridges. The Department is concerned about safety and tries to prioritize bridges for repair and replacement based on engineering assessments. The Department'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 Department. At June 30, 2009, there were approximately 402 open cases. These cases involve the acquisitions of properties by the Department for right of way purposes. The Department 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 Department.

NOTE 12: RETIREMENT PLAN

PLAN DESCRIPTION - The Department 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 Department's contribution of 10.5% which is established by PERS. Effective July 1, 2009 the Department's contribution was increased to 11%. The Department's contributions to PERS for the years ended June 30, 2009, 2008, and 2007 were \$19,838, \$18,557, and \$18,254, respectively, equal to the required contributions for each year.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

NOTE 12 – RETIREMENT PLAN (Continued)

Discretely Presented Component Units:

State Rail Authority's contributions to PERS for the years ended June 30, 2009, 2008 and 2007 were \$67, \$66 and \$66.

Parkways' contributions to PERS for the years ended June 30, 2009, 2008 and 2007 were \$1,541, \$1,594 and \$1,474.

NOTE 13: RISK MANAGEMENT

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

NOTE 14: SUBSEQUENT EVENTS

Parkways approved a toll rate increase with enhanced discounts for E-ZPass customers on July 1, 2009. The increase, effective August 1, 2009, raised cash tolls from \$1.25 to \$2.00 for passenger cars and \$4.25 to \$6.75 for 5-axle tractor trailers, and other classes were increased proportionately.

Parkways completed an advance refunding of the Series 2001A and 2001B bonds on August 20, 2009. Parkways deposited \$6,776 in an irrevocable trust with an escrow agent to provide debt service payments until the bonds mature or are called. The advance refunding meets the requirement of a in-substance defeasance and the defeased bonds will be removed from Parkway's financial statements as of the date of the advanced refunding.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2009

(amounts expressed in thousands)

	<u>Motor Vehicle Fees</u>	<u>Public Transit</u>	<u>Aeronautics Commission</u>	<u>Port Authority</u>	<u>Total Nonmajor Government Funds</u>
ASSETS					
Assets					
Cash and cash equivalents	\$ 16,205	\$ 848	\$ 4,051	\$ 7,552	\$ 28,656
Receivables	348	34	272	-	654
Inventories	1,430	-	-	-	1,430
Other assets	428	-	-	-	428
Total assets	<u>\$ 18,411</u>	<u>\$ 882</u>	<u>\$ 4,323</u>	<u>\$ 7,552</u>	<u>\$ 31,168</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 444	\$ -	\$ 23	\$ -	\$ 467
Accrued payroll and related liabilities	103	30	11	13	157
Due to other State of West Virginia agencies	2,295	-	-	-	2,295
Due to other states	3,208	-	-	-	3,208
Total liabilities	<u>6,050</u>	<u>30</u>	<u>34</u>	<u>13</u>	<u>6,127</u>
Fund balances					
Reserved for inventories	1,430	-	-	-	1,430
Unrestricted, undesignated	<u>10,931</u>	<u>852</u>	<u>4,289</u>	<u>7,539</u>	<u>23,611</u>
Total fund balances	<u>12,361</u>	<u>852</u>	<u>4,289</u>	<u>7,539</u>	<u>25,041</u>
Total liabilities and fund balances	<u>\$ 18,411</u>	<u>\$ 882</u>	<u>\$ 4,323</u>	<u>\$ 7,552</u>	<u>\$ 31,168</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(amounts expressed in thousands)

	<u>Motor Vehicle Fees</u>	<u>Public Transit</u>	<u>Aeronautics Commission</u>	<u>Port Authority</u>	<u>Total Nonmajor Government Funds</u>
Revenues					
Taxes					
Aviation fuel	\$ -	\$ -	\$ 1,051	\$ -	\$ 1,051
License, fees and permits					
Motor vehicle registrations and licenses	4,412	-	-	-	4,412
Federal aid	7,162	8,837	-	-	15,999
Intergovernmental	-	1,821	1,762	4,662	8,245
Interest income	-	-	46	13	59
Miscellaneous revenues	-	439	-	-	439
	<u>11,574</u>	<u>11,097</u>	<u>2,859</u>	<u>4,675</u>	<u>30,205</u>
Expenditures					
Current					
Support and administrative operations	<u>9,959</u>	<u>10,992</u>	<u>2,439</u>	<u>362</u>	<u>23,752</u>
	<u>9,959</u>	<u>10,992</u>	<u>2,439</u>	<u>362</u>	<u>23,752</u>
Excess (deficiency) of revenues over expenditures	1,615	105	420	4,313	6,453
Fund balances, beginning of year	<u>10,746</u>	<u>747</u>	<u>3,869</u>	<u>3,226</u>	<u>18,588</u>
Fund balances, end of year	<u>\$ 12,361</u>	<u>\$ 852</u>	<u>\$ 4,289</u>	<u>\$ 7,539</u>	<u>\$ 25,041</u>

COMPLIANCE AND INTERNAL CONTROL REPORTS

**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**

To the Secretary
West Virginia Department of Transportation
Charleston, West Virginia

We have audited the financial statements of the West Virginia Department of Transportation (the Department), a component unit of the State of West Virginia, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department'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 Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items, 2009-1 to 2009-8 to be significant deficiencies in internal control over financial reporting.

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

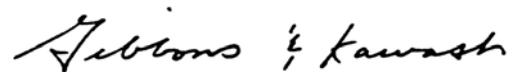
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant 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 Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the audit committee, federal awarding agencies, pass-through entities, management of the West Virginia Department of Transportation and the West Virginia Legislature and is not intended to be and should not be used by anyone other than these specified parties.



January 21, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Secretary
West Virginia Department of Transportation
Charleston, West Virginia

Compliance

We have audited the compliance of the West Virginia Department of Transportation (the Department) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the West Virginia Department of Transportation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

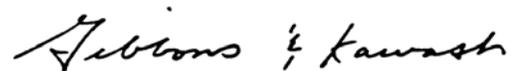
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over compliance in accordance with OMB Circular A-133. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2009-9 and 2009-11.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. However, we do not consider any of the deficiencies in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

This report is intended solely for the information and use of the audit committee, federal awarding agencies, pass-through entities, management of the West Virginia Department of Transportation and the West Virginia Legislature and is not intended to be and should not be used by anyone other than these specified parties.



January 21, 2010

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	Division	CFDA Number	Expenditures
U.S. Department of Agriculture			
Schools and Roads - Grants to States	DOH	10.665	<u>\$ 426,055</u>
Total U.S. Department of Agriculture			<u>426,055</u>
U.S. Department of Justice			
Passed-through State of West Virginia Department of Motor Vehicles Public Safety Partnership and Community Policing Grant	DMV	16.710	<u>765,161</u>
Total U.S. Department of Justice			<u>765,161</u>
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	375,491,921
Highway Planning and Construction	DOH	ARRA - 20.205	11,321,642
Recreational Trails Program	DOH	20.219	1,048,418
Appalachian Development Highway System	DOH	23.003	67,776,863
Commercial Drivers License State Programs	DMV	20.232	399,978
Federal Transit Capital Improvement Grant	PT	20.500	2,181,095
Federal Transit Technical Studies Grant	PT	20.505	63,280
Public Transportation for Nonurbanized Areas	PT	20.509	5,129,264
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	1,201,082
Job Access Reverse Commute	PT	20.516	202,407
New Freedom Program	PT	20.521	75,761
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	1,290,596
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	464,840
Safety Incentive Grants for Use of Seatbelts	DMV	20.604	16,372
Safety Belt Performance Grant	DMV	20.609	394,625
State Traffic Safety Information System Improvement Grants	DMV	20.610	149,079
Incentive Grant Program to Prohibit Racial Profiling	DMV	20.611	717,346
Incentive Grant Program to Increase Motorcycle Safety	DMV	20.612	52,569
Child Safety and Child Booster Seat Incentive Grants	DMV	20.613	165,853
Alcohol Open Container Requirements	DMV	20.607	2,171,290
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	DMV	20.608	761,005
National Highway Transportation Safety Administration Discretionary Safety Grants	DOH	20.614	<u>59,234</u>
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			<u>471,134,520</u>
U.S. Department of Homeland Security			
Passed-through State of West Virginia Department of Military Affairs and Public Safety			
Public Assistance Grants	DOH	97.036	<u>4,430,417</u>
Total U.S. Department of Homeland Security			<u>4,430,417</u>
Total Federal Expenditures			<u>\$ 476,756,153</u>

DMV Division of Motor Vehicles
 DOT Division of Highways
 PT Public Transit

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the West Virginia Department of Transportation, and is presented on the accrual basis of accounting. The Schedule does not include federal awards received and expended by the discretely presented component units of the Department as described in Note 1 to the Department's financial statements for the year ended June 30, 2009. These organizations are responsible when necessary, for obtaining separate audits of their federal award programs. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the West Virginia Department of Transportation provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided to (Refunded from) Subrecipients</u>
Public Safety Partnership and Community Policing Grant	16.710	700,926
Highway Planning and Construction	20.205	7,311,506
Recreational Trails Program	20.219	1,220,673
Federal Transit Capital Improvement Grant	20.500	497,089
Federal Transit Technical Studies Grant	20.505	38,072
Public Transportation for Nonurbanized Areas	20.509	4,079,016
Capital Assistance Program for Elderly Persons and Persons with And Persons with Disabilities	20.513	53,333
Job Access Reverse Commute	20.516	142,625
New Freedom Program	20.521	55,700
State and Community Highway Safety	20.600	850,886
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Incentive Grants	20.601	324,352
Safety Incentive Grants for Use of Seatbelts	20.604	16,372
Alcohol Open Container Requirements	20.607	699,056
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	26,435
Safety Belt Performance Grants	20.609	394,625
State Traffic Safety Information System Improvement Grants	20.610	90,730
Incentive Grant Program to Prohibit Racial Profiling	20.611	659,241
Incentive Grant Program to Increase Motorcycle Safety	20.612	52,569
Child Safety and Child Booster Seat Incentive Grants	20.613	130,195
		<u>\$ 17,343,401</u>

NOTE 3 - MAJOR FEDERAL AWARD PROGRAM

The program guidelines for the U.S. Appalachian Regional Commission "Appalachian Development Highway System" incorporated the U.S. Department of Transportation Program regulations. Accordingly, the combined funding for U.S. Department of Transportation and U.S. Appalachian Regional Commission is treated as a single federal award program cluster for the purpose of compliance testing.

WV DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes No
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes No

WV DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Year Ended June 30, 2009

Section I - Summary of Auditors' Results (Continued)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	U.S. Department of Transportation, U.S. Appalachian Regional Commission
	Highway Planning and Construction Cluster
20.205	Highway Planning and Construction
ARRA-20.205	Highway Planning and Construction
23.003	Appalachian Development Highway System
20.219	Recreational Trails Program
20.509	Formula Grants for Other Than Urbanized Areas
	Highway Safety Cluster
20.600	State and Community Highway Safety
20.601	Alcohol Traffic Safety and Drunk Driving Prevention and Incentive Grants
20.604	Safety Incentive Grants for Use of Seatbelts
20.609	Safety Belt Performance Grants
20.610	State Traffic Safety Information System Improvement Grants
20.611	Incentive Grant Program to Prohibit Racial Profiling
20.612	Incentive Grant Program to Increase Motorcycle Safety
	U.S. Department for Homeland Security
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish
 between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? Yes No

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

Section II - Financial Statement Findings

Primary Government:

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

Condition:

The Division of Highway's (DOH) 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 DOH does not have effective controls established to ensure that the project completion date entered into the project management system is accurate.

Cause:

The DOH 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 DOH'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 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 DOH should consider changes in supervisory review procedures to ensure that infrastructure items are appropriately identified and capitalized.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-1 FINANCIAL REPORTING - CAPITAL ASSETS (Continued)

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 address the findings of the audit report, the DOH 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 DOH staff for accuracy.

2009-2 PAYROLL AUTHORIZATION PROCEDURES

Criteria:

Management of the DOH 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 DOH'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 payroll system.

Cause:

The DOH's established procedures for payroll authorization are not functioning as designed.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-2 PAYROLL AUTHORIZATION PROCEDURES (Continued)

Context:

The DOH'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.

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)

Condition:

The Department operates several information technology systems that affect the information that is reported in the Department'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 Department'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 Department has not established or monitored the existing information technology systems policies and procedures over change management and certain system access controls.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)

Context:

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

Effect:

Changes to the information technology systems programming can be placed in production without appropriate supervisory review and approval. Additionally, unauthorized access to these information technology systems may occur and go undetected. Also, data may be lost due to a unforeseen event that impacts the West Virginia State Capitol Complex, specifically, Building Five.

Recommendation:

The Department 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-3 INFORMATION TECHNOLOGY SYSTEM CONTROLS (Continued)

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 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 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 RVERIFY function has not been used in over 10 years, hence the lack of review of RVERIFY 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.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2009-4 NON-FEDERAL AID RECEIVABLE RECONCILIATION

Criteria:

To ensure the completeness and accuracy of financial information, procedures should be in place to reconcile the amounts recorded in the accounts receivable subsidiary ledger for non-federal aid earned and unbilled accounts receivable to the control account in the DOH's general ledger.

Condition:

We noted that the DOH has not established procedures to ensure that the amounts recorded as non-federal aid earned and unbilled receivables are reconciled to the control account in the DOH'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 DOH 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 balances in the subsidiary ledger to the general ledger control account balance for non-federal aid earned and unbilled accounts receivable, errors could and have occurred and gone undetected by the DOH's personnel in the normal course of performing their assigned functions.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

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

Recommendation:

We recommend that the DOH 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.

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.

Discretely Presented Component Units:

**2009-5 PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY -
JOURNAL ENTRY REVIEW AND APPROVAL**

Criteria:

All transactions that are posted to the general ledger should be subjected to appropriate supervisory review and approval to ensure that the transaction is properly initiated and recorded in the appropriate accounts and at the appropriate amount.

Condition:

We noted that general journal entries are posted to the general ledger by the Director of Finance without supervisory review and approval.

Context:

The amount of these journal entries were material to the Authority's financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Discretely Presented Component Units (Continued):

**2009- 5 PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY -
JOURNAL ENTRY REVIEW AND APPROVAL (Continued)**

Effect:

Without appropriate supervisory review, errors or irregularities in the financial statements may not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause:

Formal procedures to require supervisory review and approval of general journal entries exist but are not effectively implemented.

Recommendation:

Management should effectively implement the established procedures to ensure that all significant general journal entries posted to the general ledger have been reviewed and approved by supervisory personnel.

Views of Responsible Officials:

Management concurs with the finding and recommendation. The Authority has reinstated and reemphasized procedures whereby the General Manager, who is knowledgeable of the Authority's operations and appropriate accounting principles, will document his review and approval of all significant general journal entries on a monthly basis. Previously, the General Manager was involved in the supervision and review of the preparation of the financial statements on an informal basis through his review and analysis of the various accounting reports. Consequently, the Authority is confident any anomalies in the financial statements have been detected and corrected on a timely basis. In accordance with this finding, the General Manager's review will be appropriately documented as recommended.

**2009-6 PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY - CASH
RECONCILIATION REVIEW AND APPROVAL**

Criteria:

The monthly bank statements and reconciliations should be reviewed and approved by appropriate supervisory personnel to ensure that these reconciliations are conducted properly and timely, and that the noted reconciling items appear appropriate.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Discretely Presented Component Units (Continued):

**2009-6 PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY - CASH
RECONCILIATION REVIEW AND APPROVAL (Continued)**

Condition:

We noted that monthly bank statements and reconciliations were not subjected to appropriate supervisory review and approval.

Effect:

Without appropriate supervisory review of the bank statement reconciliations, errors or irregularities in the financial statements may not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause:

Formal procedures to require supervisory review and approval of all bank statements and reconciliations exist but are not effectively implemented.

Recommendation:

Management should effectively implement the established procedures for supervisory review and approval of the monthly bank statements and related reconciliations.

Views of Responsible Officials:

Management concurs with the finding and recommendation. The Authority has reinstated and reemphasized formal documenting procedures whereby all cash reconciliations will be reviewed by an individual independent of the cash disbursement, cash receipt, and reconciliation process on a monthly basis. The Authority will document this review on the monthly reconciliation form. However, management is confident that any errors or irregularities occurring in the Authority's cash reconciliations have been detected in a timely manner through other methods.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Discretely Presented Component Units (Continued):

**2009-7 PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY -
ACCRUED LIABILITIES CUTOFF**

Criteria:

In accordance with accounting principles generally accepted in the United States of America, accrued liabilities reported in the financial statements should include all expenditures incurred and unpaid by the government as of the balance sheet date.

Condition:

We noted that accrued liabilities reported in the financial statements prepared by management did not include all material expenditures incurred but unpaid by the Authority as of June 30, 2009.

Context:

Total accrued liabilities were approximately \$960,000 at June 30, 2009.

Effect:

The unaudited financial statements prepared by management did not include all material liabilities incurred by the Authority as of June 30, 2009.

Cause:

Management has not established procedures to ensure that a complete and accurate cut-off of accounts payable and accrued liabilities is achieved.

Recommendation:

Management should establish procedures to ensure that all material expenditures that have been incurred but not paid as of the balance sheet date are recorded in the Authority's financial statements as a liability in accordance with accounting principles generally accepted in the United States of America.

Views of Responsible Officials:

Management concurs with the finding and recommendation. Additional procedures will be established to ensure all material accrued liabilities are recorded in the Authority's financial statements prepared by management.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Discretely Presented Component Units (Continued):

2009-8 STATE RAIL AUTHORITY - FINANCIAL REPORTING - CAPITAL ASSETS

Criteria:

The Authority should have controls established to identify and properly record only those expenditures that meet the Authority's threshold for capitalization in the period in which they were incurred.

Condition:

We noted that the Authority capitalized expenditures during the current year that were incurred in a prior fiscal year.

Cause:

Management has not established appropriate supervisory review and approval procedures to ensure that expenditures are capitalized in accordance with the existing capitalization policy in the year that the expenditure is incurred.

Context:

We noted \$381,738 of expenditures, incurred in the prior year, that were improperly capitalized during the current fiscal year. The Authority's expenditures reported in its financial statements were \$3,981,572 for the year ended June 30, 2009.

Effect:

Amounts could be capitalized during the fiscal year in which the expenditures were not incurred, resulting in an overstatement of expenses in one year and an understatement of expenses in the subsequent year.

Recommendation:

Management should ensure that its established capitalization policy is applied and that all assets capitalized by the Authority meet the standards of the capitalization policy. The Authority should consider changes in supervisory review procedures and account reconciliation procedures to ensure that capital assets are appropriately identified and recorded in the period in which the expenditure is incurred.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section II - Financial Statement Findings (Continued)

Discretely Presented Component Units (Continued):

**2009-8 STATE RAIL AUTHORITY - FINANCIAL REPORTING - CAPITAL ASSETS
(Continued)**

Views of Responsible Officials:

The State Rail Authority agrees with the finding. We will ensure the capitalization policy is adhered to properly in the future. The review of capital items will be thoroughly monitored and checked by management.

Section III - Federal Award Findings and Questioned Costs

2009-9 SUBRECIPIENT MONITORING

U.S. Department of Transportation, U.S. Appalachian Regional Commission – Highway Safety Cluster – CFDA #20.600, #20.601, #20.609, #20.610, #20.611, #20.612, and #20.613.

Criteria:

The Governor's Highway Safety Program (GHSP), a section of the Division of Motor Vehicles, is responsible for monitoring its subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers the federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition:

We noted that the GHSP does not uniformly apply the established monitoring policies and procedures to ensure that its subrecipients administer the federal awards in accordance with program provisions.

Questioned Costs:

None

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section III - Federal Award Findings and Questioned Costs (Continued)

2009-9 DIVISION OF MOTOR VEHICLES - SUBRECIPIENT MONITORING (Continued)

Cause:

The GHSP does not enforce the established policies and procedures to ensure that effective monitoring activities of its subrecipients are performed.

Context:

Total disbursements to subrecipients for the year ended June 30, 2009 was approximately \$3,244,461.

Effect:

Noncompliance with program provisions by its subrecipients could occur and go undetected by the GHSP.

Recommendation:

The GHSP should enforce policies and procedures to ensure that effective monitoring of subrecipients is conducted.

Views of Responsible Officials:

Agree. It is our intention that all subrecipients be monitored according to established policies and procedures. In this instance, there was one subrecipient that was unintentionally missed. We will incorporate this and any other new subrecipients in our monitoring schedule for all subsequent fiscal years.

2009-10 PAYROLL AUTHORIZATION PROCEDURES

U.S. Department of Transportation, U.S. Appalachian Regional Commission -
Highway Planning and Construction Cluster – CFDA #20.205, #ARRA-20.205, #23.003, #20.219

U.S. Department of Homeland Security -
CFDA #97.036

Significant Deficiency:

The significant deficiency at Finding 2009-2 applies to these federal award programs.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2009

Section III - Federal Award Findings and Questioned Costs (Continued)

2009-11 INFORMATION TECHNOLOGY SYSTEM CONTROLS

U.S. Department of Transportation, U.S. Appalachian Regional Commission - Highway Planning and Construction Cluster – CFDA #20.205, #ARRA-20.205, #23.003, #20.219

U.S. Department of Homeland Security -
CFDA #97.036

Significant Deficiency:

The significant deficiency at Finding 2009-3 applies to these federal award programs.