

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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2010
AND
INDEPENDENT AUDITORS' REPORTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

YEAR ENDED JUNE 30, 2010

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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, 2010, 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.

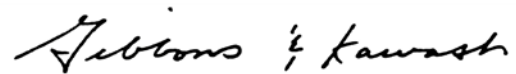
As discussed in Note 1, the financial statements of the West Virginia Department of Transportation are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation and 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, 2010 and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2010, and the respective changes in financial position thereof and the respective budgetary comparison of 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 December 6, 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. The combining 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 also 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



December 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010
UNAUDITED

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, 2010. 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 \$7.6 billion as of the close of fiscal year 2010.

Changes in Net Assets - During the year the Department's expenses were \$179 million less than the \$1,280 million generated in revenues for governmental activities. This is an increase compared to the prior year, when expenses were \$161 million less than revenues.

Revenues and Expenses - Total revenues increased by \$103.5 million or 8.80%. Total expenses increased by \$85 million or 8.37%. 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 2010, the Department's governmental funds reported combined total fund equity of \$260 million, a decrease of \$65 million in comparison to the restated prior year balance.

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the 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.

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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, 2010 and 2009 (amounts in thousands).

Net Assets as of June 30

	2010	2009	% Change
Total current assets	\$ 408,329	\$ 421,787	-3.19%
Capital assets, net of accumulated depreciation	7,853,122	7,656,883	2.56%
Other non-current assets	2,378	4,047	-41.24%
Total assets	8,263,829	8,082,717	2.24%
Total current liabilities	163,783	148,651	10.18%
Long term liabilities	540,923	554,218	-2.40%
Total liabilities	704,706	702,869	0.26%
Invested in capital assets, net of related debt	7,358,653	7,144,763	2.99%
Restricted	17,035	18,119	-5.98%
Unrestricted	183,435	216,966	-15.45%
Total net assets	\$ 7,559,123	\$ 7,379,848	2.43%

The largest component (97.35%) 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.

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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):

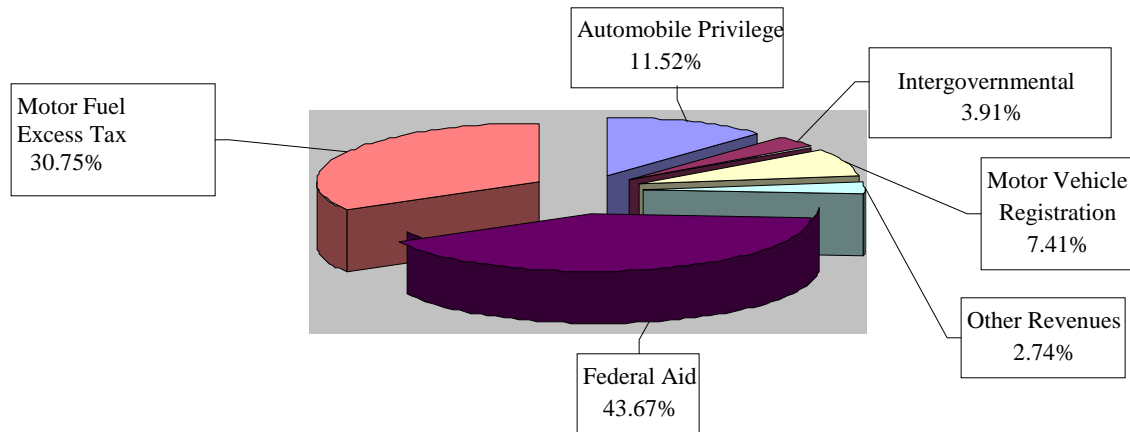
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Revenues			
Taxes	\$ 542,052	\$ 534,884	1.34%
Investment and interest income	(449)	1,978	-122.70%
Intergovernmental	50,044	37,166	34.65%
Miscellaneous revenues	<u>25,530</u>	<u>29,086</u>	-12.23%
Total general revenues	<u>617,177</u>	<u>603,114</u>	2.33%
Capital grants and contributions	561,946	479,789	17.12%
*Charges for services	<u>100,723</u>	<u>93,423</u>	7.81%
Total program revenues	<u>662,669</u>	<u>573,212</u>	15.61%
Total revenues	<u>1,279,846</u>	<u>1,176,326</u>	8.80%
Expenses			
Road maintenance	411,816	464,083	-11.26%
Other record operations	549,692	425,687	29.13%
General and administration	113,107	99,731	13.41%
Interest on long-term debt	22,514	22,730	-0.95%
Unallocated depreciation	<u>3,442</u>	<u>3,364</u>	2.32%
Total expenses	<u>1,100,571</u>	<u>1,015,595</u>	8.37%
Change in net assets	179,275	160,731	11.54%
Net assets, beginning	<u>7,379,848</u>	<u>7,219,117</u>	2.23%
Net assets, ending	<u>\$ 7,559,123</u>	<u>\$ 7,379,848</u>	2.43%

*The Department has reported "Licenses, fees and permits" as part of the line item "Charges for services."

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 \$179 million or 2.43% percent.

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



Total revenues increased by approximately \$103.5 million. Total tax revenues increased by approximately \$7 million. Federal aid revenue increased by approximately \$82 million or 17.23%. The following summarizes revenues for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 393,557	\$ 391,903	\$ 1,654	0.42%
Aviation fuel	1,029	1,051	(22)	-2.09%
Industrial access roads	3,000	3,010	(10)	-0.33%
Automobile privilege tax	147,466	141,930	5,536	3.90%
Registration fees	94,930	87,465	7,465	8.53%
Special fees and permits	5,793	5,958	(165)	-2.77%
Federal aid	558,946	476,779	82,167	17.23%
Investment and interest income	(449)	1,978	(2,427)	-122.70%
Intergovernmental	50,044	37,166	12,878	34.65%
Miscellaneous revenues	25,530	29,086	(3,556)	-12.23%
	<u>\$ 1,279,846</u>	<u>\$ 1,176,326</u>	<u>\$ 103,520</u>	8.80%

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.

The lingering effects of the recession continue to impact the Department and specifically the State Road fund in the following manner:

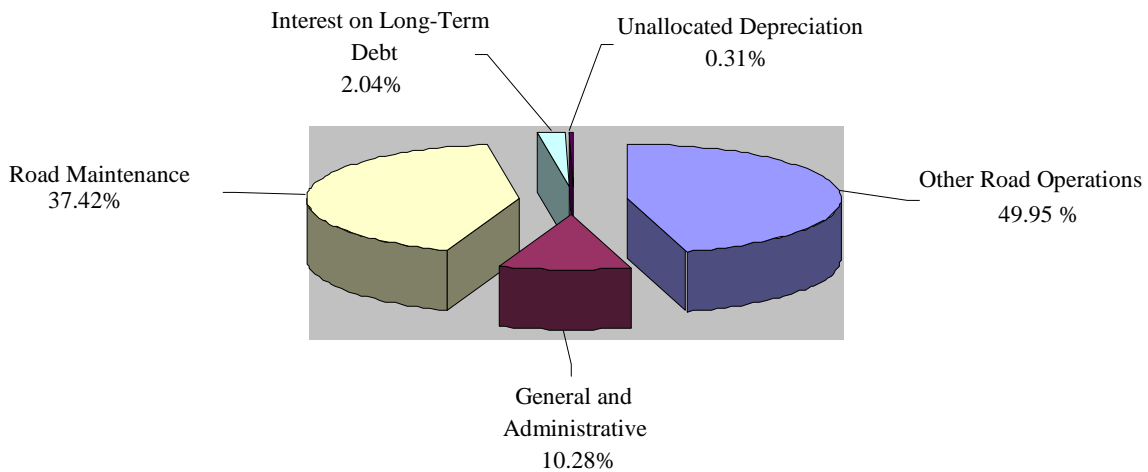
The State Road Fund tax revenue collections in FY2010, reported on a cash basis, were only \$1.72 million (.27%) higher than in FY2009. Sales (Privilege) Tax collections continued to lag significantly; \$12.24 million (7.62%) below estimates and \$2.48 million (1.64%) below FY2009 revenues. Registration Fees collected were \$2.02 million below estimates and \$2.04 million (2.28%) below FY2009 revenues. The one revenue source that appeared to weather the recession successfully was the Motor Fuel Excise Tax. That revenue exceeded estimates by \$10.92 million (2.87%) and was \$6.38 million (1.66%) above FY2009 collections. The overages in Motor Fuel Excise Tax revenue, however, were not able to completely offset the shortages reported in the other revenue sources. Overall, FY2010 tax revenues were \$3.49 million (.55%) below estimates. In FY2011, minimal revenue growth is expected.

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

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



Total expenses increased by approximately \$85 million or 8.37%. The following summarizes expenditures for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Road maintenance	\$ 411,816	\$ 464,083	\$ (52,267)	-11.26%
Other road operations	549,692	425,687	124,005	29.13%
General and administration	113,107	99,731	13,376	13.41%
Interest on long-term debt	22,514	22,730	(216)	-0.95%
Unallocated depreciation	3,442	3,364	78	2.32%
	<u>\$ 1,100,571</u>	<u>\$ 1,015,595</u>	<u>\$ 84,976</u>	8.37%

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 FY 2010, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and

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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 consistently sufficient to provide adequate cash flows to meet regular operating needs. During the year ended June 30, 2010 the cash flows from operations were \$32 thousand compared to (\$992) thousand in the prior year. The Railroad provides funding for capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled \$2.5 million, which was slightly less than 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 increased \$26.7 million or 44.3% for the fiscal year ended June 30, 2010. Operating expenses increased by \$4.5 million or 6.3% for the same period. Parkways generated positive cash flows from operating activities of \$49.6 million in 2010 and \$21.8 million in 2009.

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, 2010, the Department reported total fund balances of \$260 million. Of this total amount, \$180 million, or 69.32%, constitutes unassigned fund balance, which is available for the general purposes of the funds. The remainder of fund balance is restricted for capital projects, assigned for other purposes, and nonspendable as it is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Department's largest and General Fund. At the end of the 2010 fiscal year, unassigned fund balance of the General Fund was \$180 million and nonspendable fund balance was \$37 million. The total General Fund balance decreased \$27 million over the prior year restated general fund balance primarily due to increases in fiscal year 2010 federal aid program expenditures.

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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. Those GARVEE note sales were for the construction of portions of the US 35 corridor. At June 30, 2010 the capital projects balance of approximately \$18 million represented unexpended note funds associated with the 2009A note issue.

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

The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Gasoline, motor fuel, and aviation tax	\$ 394,586	\$ 392,954	\$ 1,632	0.42%
Motor vehicle registration	94,930	87,465	7,465	8.53%
Privilege tax	147,466	141,930	5,536	3.90%
Other taxes and fees	<u>8,793</u>	<u>8,968</u>	<u>(175)</u>	-1.95%
	<u>\$ 645,775</u>	<u>\$ 631,317</u>	<u>\$ 14,458</u>	2.29%

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. West Virginia Senate Bill 4004 passed on November 20, 2009, and established the base average wholesale price of motor fuel at \$2.34 and included a provision that on and after January 1, 2011, the average wholesale prices shall not vary more than 10% from the average wholesale price of motor fuel as calculated by the Tax Commissioner for the previous calendar year. This will eliminate the large swings in the variable component of the motor fuel tax rate that have occurred in recent years as oil prices have fluctuated wildly. That same legislation removed the requirement that the legislature had to renew every six years the \$.05 flat tax rate increase enacted in 1993.

The Department's federal revenue, on a cash (budgetary) basis for fiscal year 2010 was \$495.27 million, used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that

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have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement - Budgeted funds	\$ 494,588	\$ 441,658	\$ 52,930	11.98%
Federal reimbursement - Surface Transportation Improvement Notes	27,591	14,692	12,899	87.80%
Federal reimbursement - Emergency funds	9,842	4,430	5,412	122.17%
Other federal aid	<u>26,925</u>	<u>15,999</u>	<u>10,926</u>	68.29%
 Total Federal Aid	 <u>\$ 558,946</u>	 <u>\$ 476,779</u>	 <u>\$ 82,167</u>	 17.23%

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

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

The \$196 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the 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 \$293 million in depreciation of the infrastructure. The Department expended \$560 million dollars during the year ended June 30, 2010 for additions to capital assets. Of this amount, \$477 million was related to the acquisition of right of way and construction of roads and bridges. Construction costs for completed projects in the amount of \$391 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy and Grant Counties, upgrade of WV 9 in the Eastern Panhandle, upgrade of US Route 35 in Putnam county, preservation projects on Interstates 64 and 70, and construction on WV 2, WV 10, Coalfields Expressway, and King Coal Highway, and continued environmental studies on various projects in process.

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Discretely Presented Component Units:

As of June 30, 2010, the discretely presented component units had invested \$509 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. Net capital assets declined by approximately 2.31% or \$12 million as 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, 2010, the Department had \$340 million in outstanding bonds. The amount outstanding decreased by \$31 million 8.51% 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, 2010, the Department had \$144 million in outstanding revenue notes. The amount decreased by \$21 million or 12.62% due to net principal payments.

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

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	\$ 36,025
Safe Roads 01A - Bonds maturing between June 1, 2007 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	25,595
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	277,895
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	53,935
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	23,385
Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) - Notes Maturing on or before June 1, 2016	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	66,995
			\$ 483,830

More detailed information regarding capital asset and long-term debt activity is included in notes 8 and 10 respectively to the financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010
UNAUDITED

Discretely Presented Component Units:

The amount of Parkways' outstanding debt is approximately \$11.8 million less at June 30, 2010 than it was in 2009. 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 ASSETS
JUNE 30, 2010
(amounts expressed in thousands)

ASSETS	Primary Government	Component Units	
	Governmental Activities	Parkways, Economic Development and Tourism Authority	State Rail Authority
Current Assets			
Cash and cash equivalents	\$ 225,499	\$ 14,085	\$ 4,075
Short-term investments	-	29,242	-
Accounts receivable, net	79,287	2,188	50
Taxes receivable	64,132	-	-
Accrued interest receivable	-	38	-
Due from other State of West Virginia agencies	258	-	-
Inventories	38,632	2,561	39
Other assets	521	512	1
Total current assets	408,329	48,626	4,165
Non-current assets			
Capital assets not being depreciated			
Land - non-infrastructure	15,775	53,247	4,836
Land - Infrastructure	928,577	-	-
Construction in progress	1,117,065	-	-
Capital assets net of accumulated depreciation			
Land improvements	6,606	-	-
Buildings	69,816	41,900	-
Furniture and fixtures	804	-	105
Rolling stock	75,455	3,585	718
Scientific equipment	635	-	-
Shop equipment	58	-	-
Roads	3,745,318	-	-
Bridges	1,893,013	-	-
Toll road	-	373,360	-
Rail property	-	-	31,665
Total capital assets	7,853,122	472,092	37,324
Non-current investments	-	11,894	-
Other non-current assets	2,378	-	-
Total assets	8,263,829	532,612	41,489
LIABILITIES			
Current liabilities			
Accounts payable	58,321	4,316	1
Retainages payable	4,985	-	-
Accrued payroll and related liabilities	19,656	7,410	41
Deferred revenue	-	1,079	3
Due to other State of West Virginia agencies	3,441	-	3
Due to other States	2,955	-	-
Accrued interest payable	3,572	394	-
Current maturities of long-term obligations	70,853	7,498	-
Total current liabilities	163,783	20,697	48
Non-current liabilities			
Claims and judgments	16,921	-	-
Compensated absences	18,189	-	50
Other post employment benefits liabilities	50,606	4,144	194
Deferred revenue	-	-	77
Long-term debt obligations	455,207	62,525	-
Total non-current liabilities	540,923	66,669	321
Total Liabilities	704,706	87,366	369
NET ASSETS			
Invested in capital assets, net of related debt	7,358,653	402,069	37,324
Restricted			
Restricted by enabling legislation	17,035	-	-
Restricted by trust indenture	-	39,570	-
Unrestricted	183,435	3,607	3,796
Total net assets	\$ 7,559,123	\$ 445,246	\$ 41,120

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

Functions/Programs	Primary Government			Net Revenue (Expenses) and Changes in Net Assets	Component Units
	Expenses	Program Revenues			
		Charges for Services	Capital Grants and Contributions		
Government Activities					
Road maintenance					
Expressway, trunkline & feeder & SLS	\$ 319,219	\$ -	\$ -	\$ (319,219)	
Contract paving and secondary roads	62,542	-	-	(62,542)	
Small bridge repair & replacement	10,416	-	-	(10,416)	
Litter control program	1,688	-	-	(1,688)	
Depreciation	17,951	-	-	(17,951)	
Other road operations					
Interstate highways	86,148	-	112,435	26,287	
Appalachian highways	5,482	-	81,840	76,358	
Other federal aid programs	156,839	-	364,671	207,832	
Non federal aid improvements	5,500	-	-	(5,500)	
Industrial access roads	3,121	-	3,000	(121)	
Depreciation	292,602	-	-	(292,602)	
General and administrative					
Support and administrative operations	69,945	5,793	-	(64,152)	
Claims	11,172	-	-	(11,172)	
Cost associated with DMV	31,990	94,930	-	62,940	
Interest on long-term debt	22,514	-	-	(22,514)	
Unallocated depreciation	3,442	-	-	(3,442)	
	<u>\$ 1,100,571</u>	<u>\$ 100,723</u>	<u>\$ 561,946</u>	<u>(437,902)</u>	
Component units					
Parkways Economic Development and Tourism Authority	\$ 81,415	\$ 86,958	\$ -	\$ -	\$ 5,543
State Rail Authority	3,968	2,273	-	-	(1,695)
	<u>\$ 85,383</u>	<u>\$ 89,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,848</u>
General Revenues					
Taxes:					
Gasoline and motor carrier				\$ 393,557	\$ -
Aviation fuel				1,029	-
Automobile privilege				147,466	-
Investment and interest income				(449)	1,382
Gain (loss) on sale of capital assets				-	(62)
Intergovernmental				50,044	3,437
Miscellaneous revenues				25,530	-
Total general revenues				<u>617,177</u>	<u>4,757</u>
Change in net assets				179,275	8,605
Net assets, beginning				7,379,848	477,761
Net assets, ending				<u>\$ 7,559,123</u>	<u>\$ 486,366</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 COMBINING BALANCE SHEET - NON MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

(amounts expressed in thousands)

	State Road Fund (General Fund)	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets				
Cash and cash equivalents	\$ 171,413	\$ 20,337	\$ 33,749	\$ 225,499
Receivables	78,697	-	590	79,287
Taxes receivable	55,834	-	-	55,834
Due from other funds	6,430	-	-	6,430
Due from other State of West Virginia agencies	2,318	-	-	2,318
Inventories	37,157	-	1,475	38,632
Other assets	-	-	521	521
Total assets	<u>\$ 351,849</u>	<u>\$ 20,337</u>	<u>\$ 36,335</u>	<u>\$ 408,521</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 55,637	\$ 2,168	\$ 516	\$ 58,321
Retainages payable	4,985	-	-	4,985
Accrued payroll and related liabilities	19,507	-	149	19,656
Other post employment benefits	44,656	-	5,951	50,607
Deferred revenue	-	-	-	-
Due to other funds	6,289	141	-	6,430
Due to other states	-	-	2,955	2,955
Due to other State of West Virginia agencies	3,333	-	2,168	5,501
Total liabilities	<u>134,407</u>	<u>2,309</u>	<u>11,739</u>	<u>148,455</u>
Fund balances				
Nonspendable	37,157	-	1,475	38,632
Restricted for capital projects by trust indenture	-	18,028	-	18,028
Assigned	-	-	23,121	23,121
Unassigned	180,285	-	-	180,285
Total fund balances	<u>217,442</u>	<u>18,028</u>	<u>24,596</u>	<u>260,066</u>
Total liabilities and fund balances	<u>\$ 351,849</u>	<u>\$ 20,337</u>	<u>\$ 36,335</u>	<u>\$ 408,521</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

(amounts expressed in thousands)

Total fund balances - governmental funds \$ 260,066

Amounts reported for governmental activities in the statement of net assets are different because:

Certain receivables to be collected after year end, but are not available to pay current period expenditures and are not recorded in the funds 8,298

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

Capital assets not being depreciated		
Land - non-infrastructure	15,775	
Land - infrastructure	928,577	
Construction in progress	1,117,065	
Capital assets net of accumulated depreciation		
Land improvements	6,606	
Buildings	69,816	
Furniture and fixtures	804	
Rolling stock	75,455	
Scientific equipment	635	
Shop equipment	58	
Roads	3,745,318	
Bridges	<u>1,893,013</u>	7,853,122

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 2,378

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

Accrued interest payable	(3,572)	
Claims and judgments	(18,485)	
Compensated absences	(30,187)	
Long-term debt obligations	<u>(512,497)</u>	<u>(564,741)</u>

Net assets of governmental activities \$ 7,559,123

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	State Road Fund (General Fund)	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	\$ 393,557	\$ -	\$ -	\$ 393,557
Aviation fuel	-	-	1,029	1,029
Automobile privilege	147,466	-	-	147,466
Industrial access roads	3,000	-	-	3,000
License, fees and permits				
Motor vehicle registrations and licenses	87,600	-	4,302	91,902
Special fees and permits	5,793	-	-	5,793
Federal aid	504,430	27,591	26,926	558,947
Investment and interest income, net of				
arbitrage rate	510	(967)	8	(449)
Intergovernmental	41,520	(202)	8,726	50,044
Miscellaneous revenues	25,012	-	518	25,530
	<u>1,208,888</u>	<u>26,422</u>	<u>41,509</u>	<u>1,276,819</u>
Expenditures				
Road Maintenance				
Expressway, trunkline and feeder, state and local services	318,389	-	-	318,389
Contract paving and secondary roads	62,542	-	-	62,542
Small bridge repair and replacement	27,638	-	-	27,638
Litter control program	1,688	-	-	1,688
Support and administrative operations	96,251	-	13,061	109,312
Division of Motor Vehicle operations	31,990	-	-	31,990
Claims	497	-	-	497
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	125,499	-	-	125,499
Appalachian highways	102,626	-	-	102,626
Other federal aid programs	389,235	37,745	26,926	453,906
Nonfederal aid construction and road operations	26,714	-	-	26,714
Industrial access roads	3,121	-	-	3,121
Debt Service				
Bond issue cost	4	-	-	4
Principal	31,590	20,845	-	52,435
Interest	18,388	6,746	-	25,134
	<u>1,236,172</u>	<u>65,336</u>	<u>39,987</u>	<u>1,341,495</u>
Excess (deficiency) of revenue over expenditures	(27,284)	(38,914)	1,522	(64,676)
Fund balances, beginning of year (previously reported)	258,826	56,942	25,041	340,809
Prior period adjustment	(14,100)	-	(1,967)	(16,067)
Fund balances, beginning of year (restated)	<u>244,726</u>	<u>56,942</u>	<u>23,074</u>	<u>324,742</u>
Fund balances, end of year	<u>\$ 217,442</u>	<u>\$ 18,028</u>	<u>\$ 24,596</u>	<u>\$ 260,066</u>

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

Net change in fund balances - total governmental funds \$ (64,676)

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 depreciated expense. This is the amount by which capital outlays of \$510,745 exceeded depreciation of (\$313,995) in the current period. 196,750

In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold. (513)

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

Revenues recognized in a prior year in the statement of activities but did not provide current financial resources until the current year. 3,023

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase in claims of \$(10,676) amortization of bond issue cost of \$(316) and decrease in interest payable of \$288, exceed the decrease in compensated absences \$305 and the accretion of bond premium of \$2,655. (7,744)

Change in net assets of governmental activities \$ 179,275

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2010
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, (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, 2010 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2010
(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, 2010
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The 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 \$17,035 restricted assets, of which all is restricted by enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the 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, 2010, has been reported only in the government-wide financial statements.
- 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.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

FUND ACCOUNTING - The 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 (General) Fund - This fund serves as the Department's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- The Capital Projects Fund - This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code

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.

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.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETING AND BUDGETARY CONTROL (Continued)

The Department’s State Road General Fund which includes the A. James Manchin Fund has a legislatively approved budget. In addition, all divisions included in the financial statements as other governmental funds, have an annual appropriated budget of expenditures. However, Coal Resource Fund, Industrial Access Fund, the capital projects 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, 2010, on the budgetary basis to the GAAP basis for the State Road Fund follows:

Excess of revenues over expenditures - budgetary basis	\$ 27,044
Basis of accounting differences (budgetary to GAAP)	(60,279)
Unbudgeted funds	<u>5,951</u>
Deficiency of revenues under expenditures - GAAP basis	<u>\$ (27,284)</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 cash deposits with financial institutions. Such deposits are either fully insured or collateralized by State or United States Government Securities.

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 “Nonspendable” in accordance with GASB Statement No. 54 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:

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

- 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.

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 | • Infrastructure Roads | 30 years |
| • Buildings | 30-40 years | • Infrastructure Bridges | 50 years |
| • Furniture and Fixtures | 3-20 years | • Toll Road Infrastructure | 10-50 years |
| • Rolling Stock | 3-20 years | • Rail Property | 5-35 years |
| • Scientific Equipment | 3-25 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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The legislation allows regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. Expenditures for compensated absences are recognized as incurred and any related mature liabilities for these compensated absences are reported in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

POSTEMPLOYMENT BENEFITS - For employees hired prior to July 1, 2001, any unused sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes, based on hire date, periods of service and benefit amendments. To the extent that eligible conversion and retirement benefits are determined, a liability in the governmental fund financial statements has been accrued as a result of the Department's participation in the State's post-employment benefits plan, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 10.

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.

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

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

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

RESTRICTED NET ASSETS - Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the 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.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS - (Continued):

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

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

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

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

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

Amounts that are constrained by the Department's *intent* to be used for specific purposes as expressed by the West Virginia State Legislature or budget and or finance officers of the Department to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance.

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

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

NEWLY ADOPTED STATEMENTS ISSUED BY THE GASB - The Department adopted GASB Statement No. 51. *Accounting and Financial Reporting for Intangible Assets*, during the year ended June 30, 2010. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance was applied in addition to the existing authoritative guidance for capital assets. The adoption of this statement had no impact on the June 30, 2010 financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NEWLY ADOPTED STATEMENTS ISSUED BY THE GASB - (Continued):

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

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

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

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

	July 1, 2009
Fund balance (as previously reported)	\$ 340,809
Liabilities previously not reported in the fund	(16,067)
Fund balance (as restated)	\$ 324,742

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

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

The composition of cash and cash equivalents in the governmental funds were as follows at June 30:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	\$ 43,549	\$ 43,549
Cash on deposit with State Treasurer in Debt Service Fund	26	26
Cash on Deposit with State Treasurer invested in BTI WV Short Term Bond Pool	15,133	15,133
Cash on Deposit with State Treasurer invested in BTI WV Money Market Pool	143,995	143,995
Cash on Deposit with State Treasurer invested in BTI WV Government Money Market Pool	20,334	20,334
Cash in transit	98	98
Cash on hand	2,364	2,364
	\$ 225,499	\$ 225,499

West Virginia Board of Treasury Investments (BTI) WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool (for governmental funds and discretely presented component units)

Cash on deposit with the State Treasurer is a non-safeguarded deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*. Additionally, such deposits are subject to the following BTI policies and procedures.

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI’s Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI’s Consolidated Fund. Of the BTI’s Consolidated Fund pools 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, 2010, the WV Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010
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NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2010, the WV Money Market Pool investments had a total carrying value of \$2,876,711, of which the Department's ownership represents 5.00%.

WV Government Money Market Pool

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

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

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

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, 2010
(amounts expressed in thousands)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

* NR = Not Rated

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

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

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

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

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

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 Consolidated Fund pools and accounts are subject to interest rate risk.

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

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

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

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

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

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

Other Investment Risks

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools 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, 2010, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, approximately \$133,606 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2010, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. The BTI is exposed to cash reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (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	\$ 79,708	\$ 81,332
WV Short Term Bond Pool	51,473	52,274
	\$ 131,181	\$ 133,606

Deposits

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

Discretely Presented Component Units:

State Rail Authority - The Railroad 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 as noted above. The Railroad ownership represents .14% of these amounts held by the BTI. The carrying amount of these deposits does not differ from the 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 also participates in the BTI WV Short Term Bond Pool and are subject to the policies and procedures noted above. Parkways' ownership represents .66% of the amounts held by the BTI.

Interest Rate Risk - Investments

As a means of limiting its exposure to fair value losses resulting from rising interest rates, Parkways' investment policies limited individual securities in the Parkways' investment portfolio to remaining maturities of less than five years and the weighted dollar average maturity is capped at three years. As of June 30, 2010, Parkways had the following investments and maturities (in years):

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1-5	6-10	10+
Mutual bond funds	\$ 27	\$ 27	\$ -	\$ -	\$ -
Government agency bonds	35,779	26,247	6,893	371	2,268
State government bonds	216	-	-	216	-
Corporate bonds	2,147	-	1,140	951	56
	\$ 38,169	\$ 26,274	\$ 8,033	\$ 1,538	\$ 2,324

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

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Concentration of Credit Risk - Investments

As of June 30, 2010, Parkways had investment balances with the following issuers which were greater than or equal to 5% of the total investment balance:

Type	Issuer	Percentage of Investments
Government agency bonds	Federal Home Loan Bank	34%
	Federal National Mortgage Association	32%
	Federal Farm Credit Bank Bond	18%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were \$14,043 at June 30, 2010. These deposits, which had a bank balance of \$14,474, 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:

Security Type	Fair Value	Rating	
		S&P	Moody's
Corporate Bonds	\$ 1,558	AA+	Aa2
Corporate Bonds	157	AA-	Aa3
Corporate Bonds	136	AA-	A1
Corporate Bonds	133	AA-	A2
Corporate Bonds	107	AA-	A1
Corporate Bonds	56	A-	Aa3
	<u>2,147</u>		
Government Agency Bonds	11,927	AAA	Aaa
Government Agency Bonds	9,304	AAA	Aaa
Government Agency Bonds	7,280	AAA	Aaa
Government Agency Bonds	3,272	AAA	Aaa
Government Agency Bonds	1,481	AAA	Aaa
Government Agency Bonds	1,309	AAA	Aaa
Government Agency Bonds	1,142	AAA	Aaa
Government Agency Bonds	49	AAA	Aaa
Government Agency Bonds	15	AAAm	Aaa
	<u>35,779</u>		
Mutual Bond Funds	26	AAAm	Aaa
Mutual Bond Funds	1	n/r	n/r
	<u>27</u>		
State Government Bonds	216	n/r	A3
	<u>\$ 38,169</u>		

n/r - not rated by specific rating agency

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk - Investments (Continued)

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, 2010, 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 for Parkways is as follows:

As disclosed in this Note:	
Total deposits	\$ 14,043
Total WV Short Term Bond Pool	3,009
Total other investments	<u>38,169</u>
	<u>\$ 55,221</u>
As reported on the Balance Sheet:	
Cash and cash equivalents	\$ 14,085
Short-term investments	29,242
Investments in securities maturing beyond one year	<u>11,894</u>
	<u>\$ 55,221</u>

The cost of investment securities and related accrued interest receivable is allocated at June 30, 2010, among the following restricted accounts created under the various Trust Indentures or by the adoption of Parkways' resolution:

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

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Other Information (Continued)

	2010
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1993, 2002, and 2008 Reserves	\$ 10,808
Renewal and Replacement	8,743
Operating and Maintenance	4,464
Series 2002 Debt Service	617
Series 2008 Debt Service	887
Insurance Liability	1,000
Economic Development and Tourism	2,134
	28,653
Reserve Revenue, restricted by Tri-Party Agreement	15,078
Facility Improvement	1,173
Total restricted and designated assets	\$ 44,904

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, and 2008 Reserve Account equal maximum annual debt service for such bonds. The balance in the 1993, 2002, 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 2001A and 2001B Bonds were defeased during the year ended June 30, 2010.

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
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NOTE 4: ACCOUNTS RECEIVABLE

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

	<u>Primary Government</u>	<u>Component Units</u>
Federal aid billed and not paid	\$ 10,684	\$ -
Federal aid earned but not billed	<u>57,158</u>	<u>-</u>
Total federal aid receivable	67,842	-
Other receivables	<u>11,937</u>	<u>2,238</u>
Combined total receivables	79,779	2,238
Less: allowance for uncollectibles	<u>(492)</u>	<u>-</u>
Net accounts receivable	<u>\$ 79,287</u>	<u>\$ 2,238</u>

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

NOTE 5: TAXES RECEIVABLE

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

Automobile privilege taxes	\$ 18,733
Motor fuel excise taxes	34,808
Registration fees	<u>10,591</u>
Taxes receivable	<u>\$ 64,132</u>

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

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

	<u>Primary Government</u>	<u>Component Units</u>
Other State of West Virginia agencies	<u>\$ 258</u>	<u>\$ -</u>

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

	<u>Primary Government</u>	<u>Component Units</u>
Public Employees Insurance Agency	\$ 1,800	\$ -
Public Employees Retirement System	1,472	-
Other State of West Virginia agencies	<u>169</u>	<u>3</u>
	<u>\$ 3,441</u>	<u>\$ 3</u>

NOTE 7: INVENTORIES

Inventories at June 30, 2010 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Materials and supplies	\$ 27,816	\$ 2,600
Equipment repair parts	7,863	-
Gas and lubrication supplies	<u>2,953</u>	<u>-</u>
	<u>\$ 38,632</u>	<u>\$ 2,600</u>

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

NOTE 8: CAPITAL ASSETS

Primary government capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land - non infrastructure	\$ 14,519	\$ 1,256	\$ -	\$ 15,775
Land - infrastructure	898,613	29,964	-	928,577
Construction-in-progress - buildings	14,331	11,108	11,088	14,351
Construction-in-progress - land improvements	1,118	1,288	1,833	573
Construction-in-progress - roads	765,591	311,599	230,210	846,980
Construction-in-progress - bridges	<u>287,490</u>	<u>164,695</u>	<u>197,024</u>	<u>255,161</u>
Total capital assets not being depreciated	<u>1,981,662</u>	<u>519,910</u>	<u>440,155</u>	<u>2,061,417</u>
Capital assets being depreciated:				
Buildings	102,399	10,050	347	112,102
Furniture and fixtures	4,069	439	169	4,339
Land improvements - non infrastructure	8,567	1,486	-	10,053
Rolling stock	217,600	27,939	7,800	237,739
Shop equipment	3,040	15	5	3,050
Scientific equipment	2,739	46	-	2,785
Infrastructure - roads	7,539,386	196,232	-	7,735,618
Infrastructure - bridges	<u>2,150,585</u>	<u>194,785</u>	<u>-</u>	<u>2,345,370</u>
Total capital assets being depreciated	<u>10,028,385</u>	<u>430,992</u>	<u>8,321</u>	<u>10,451,056</u>
Less accumulated depreciation:				
Buildings	39,730	2,846	290	42,286
Furniture and fixtures	3,535	169	169	3,535
Land improvements - non infrastructure	3,019	428	-	3,447
Rolling stock	151,853	17,776	7,345	162,284
Shop equipment	2,987	9	4	2,992
Scientific equipment	1,985	165	-	2,150
Infrastructure - roads	3,744,862	245,438	-	3,990,300
Infrastructure - bridges	<u>405,193</u>	<u>47,164</u>	<u>-</u>	<u>452,357</u>
Total accumulated depreciation	<u>4,353,164</u>	<u>313,995</u>	<u>7,808</u>	<u>4,659,351</u>
Total capital assets being depreciated, net	<u>5,675,221</u>	<u>116,997</u>	<u>513</u>	<u>5,791,705</u>
Governmental activities capital assets, net	<u>\$ 7,656,883</u>	<u>\$ 702,783</u>	<u>\$ 506,544</u>	<u>\$ 7,853,122</u>

Current year depreciation totaling \$310,553 was allocated as separate line items in the statement of activities under the major functions of Maintenance and/or Improvements. The remaining \$3,442 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8: CAPITAL ASSETS (Continued)

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.

A summary of depreciation for the primary government on each capital asset type follows:

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

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

NOTE 8: CAPITAL ASSETS (Continued)

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2010, was as follows:

Land - non infrastructure	\$ 50,493	\$ -	\$ -	\$ 50,493
Land - infrastructure	<u>7,590</u>	<u>-</u>	<u>-</u>	<u>7,590</u>
Total capital assets not being depreciated	<u>58,083</u>	<u>-</u>	<u>-</u>	<u>58,083</u>
Capital assets being depreciated:				
Buildings	96,849	678	-	97,527
Furniture and fixtures	451	-	-	451
Rolling stock	10,448	1,007	574	10,881
Infrastructure - roads	824,243	17,850	-	842,093
Infrastructure - rail property	<u>47,083</u>	<u>1,303</u>	<u>97</u>	<u>48,289</u>
Total capital assets being depreciated	<u>979,074</u>	<u>20,838</u>	<u>671</u>	<u>999,241</u>
Less accumulated depreciation:				
Buildings	52,204	3,423	-	55,627
Furniture and fixtures	336	10	-	346
Rolling stock	6,410	742	574	6,578
Infrastructure - roads	441,624	27,109	-	468,733
Infrastructure - rail property	<u>15,193</u>	<u>1,466</u>	<u>35</u>	<u>16,624</u>
Total accumulated depreciation	<u>515,767</u>	<u>32,750</u>	<u>609</u>	<u>547,908</u>
Total capital assets being depreciated, net	<u>463,307</u>	<u>(11,912)</u>	<u>62</u>	<u>451,333</u>
Governmental activities capital assets, net	<u>\$ 521,390</u>	<u>\$ (11,912)</u>	<u>\$ 62</u>	<u>\$ 509,416</u>

Current year depreciation expense was \$32,750.

NOTE 9: RETAINAGES PAYABLE

Retainages payable includes funds withheld from payments to consulting firms and construction contractors. Retainages payments are made to the consultants and contractors when work is satisfactorily completed. The Department 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 Department. At June 30, 2010, retainages payable included \$237 that was on deposit at BTI for construction contractors.

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

NOTE 10: LONG-TERM OBLIGATIONS

Long-term obligations of the primary government at June 30, 2010, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30% - 5.25%	06/01/2023	\$ 36,025	\$ -	\$ -	\$ 36,025
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	36,745	-	11,150	25,595
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	298,335	-	20,440	277,895
Total general obligation bonds				371,105	-	31,590	339,515
Bond premium				24,184	-	1,633	22,551
Total general obligation bonds payable including premium				395,289	-	33,223	362,066
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	61,600	-	7,665	53,935
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	26,725	-	3,340	23,385
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	76,835	-	9,840	66,995
Total revenue notes payable				165,160	-	20,845	144,315
Note premium				7,135	-	1,019	6,116
Total general obligation notes payable including premium				172,295	-	21,864	150,431
Claims and judgments				7,809	11,185	509	18,485
Compensated absences				30,492	930	1,234	30,188
Other postemployment benefits				16,066	34,540	-	50,606
Total long-term obligations				\$ 621,951	\$ 46,655	\$ 56,830	\$ 611,776

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

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

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

Debt service expenditures for debt service funds included interest of \$25,148 for the year ended June 30, 2010. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable liquidated through debt service funds, are as follows:

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

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010
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NOTE 10: LONG-TERM OBLIGATIONS (Continued)

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.

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	\$ 11,999	\$ -	\$ 1,564	\$ 57,290	\$ 70,853
Long-term liability	<u>18,189</u>	<u>50,606</u>	<u>16,921</u>	<u>455,207</u>	<u>540,923</u>
	<u>\$ 30,188</u>	<u>\$ 50,606</u>	<u>\$ 18,485</u>	<u>\$ 512,497</u>	<u>\$ 611,776</u>

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

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

At June 30, 2010, approximately \$13,871 of tort claims, \$1,850 of environmental claims, and \$1,200 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 \$18,485 recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$1,564. During the normal course of operations, the 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.

The OPEB Plan costs are accrued as invoiced by PEIA based upon actuarially determined amounts. The ARC rate is nine hundred one dollars per employee per month for the year ending June 30, 2010. The Department's ARC was \$34,539, \$21,534, and \$25,230 and the Department has paid premiums of \$8,353, \$11,286, and \$12,796, which represent 24.2%, 52.4%, and 50.7% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. At June 30, 2010, the liability related to OPEB costs was \$50,606.

Discretely Presented Component Units:

State Rail Authority

The following is a summary of long term obligations for the year ended June 30, 2010:

<u>Year ending June 30</u>	<u>Compensated Absences</u>	<u>Other Postemployment Benefits Liability</u>
2010	\$ 50	\$ 194

Postemployment Benefits Other than Pensions - State Rail Authority

In accordance with GASB Statement No. 45, Other Post Employment Benefits (OPEB) costs are accrued based on invoices received from PEIA which uses actuarial determined amounts. The State of West Virginia Code requires the OPEB Plan bill the participating employers 100% of the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB Statements 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

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Postemployment Benefits Other than Pensions (Continued)

actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate is nine hundred one dollars per employee per month for the year ending June 30, 2010. The Railroad's ARC was \$146, \$85, and \$94, and the Railroad has paid premiums of \$27, \$26, and \$19, which represent 18.5%, 31.1%, and 19.9% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. At June 30, 2010, the liability related to OPEB costs was \$194.

Parkways

Long-term debt obligations of Parkways consisted of the following at June 30, 2010:

Revenue bonds payable	\$ 69,389
Capital leases	<u>634</u>
	<u>\$ 70,023</u>

Capital Leases - Parkways entered into - capital leases during the fiscal years 2006 and 2008 - the equipment has a carrying value of \$1,709 at June 30, 2010. Future minimum lease payments are as follows for the years ending June 30:

2011	\$ 363
2012	228
2013	<u>82</u>
Total minimum lease payments	673
Less amount representing interest	(39)
Less current portion	<u>(363)</u>
Long term portion	<u>\$ 271</u>

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds - Revenue bonds payable consisted of the following at June 30, 2010:

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	\$ 26,495
Series 2008 Variable Rate Demand Revenue Refunding Bonds, \$59,100 at variable rates, due in varying installments through May 2019	<u>50,500</u>
Total revenue bonds payable	\$ 76,995
Add:	
Unamortized premium	1,291
Less:	
Unamortized deferred loss on advance refunding	(8,050)
Unamortized discount and issuance costs	(847)
Current portion of revenue bonds payable	<u>(7,135)</u>
	<u>\$ 62,254</u>

The Revenue Bonds under the 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 (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.

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 2010. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$3,003 over an 18-year period (life of the funding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,624.

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds (Continued):

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 requirements of an in-substance defeasance and the defeased bonds will be removed from Parkways' financial statement as of the date of the advance refunding.

Principal and interest paid on the 2002 bonds for the year ended June 30, 2010 was \$3,706 and the total pledged revenues were approximately all toll revenues of Parkways.

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 \$591 in 2010. 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, 2010 was \$6,683 and the total pledged revenues were approximates all toll revenues of Parkways.

Parkways has an interest rate swap derivative instrument to synthetically fix, on a current basis, the Series 2008 Refunding Variable Rate Bonds in order to hedge interest rate fluctuations. The key provisions of the instrument are:

Type	Pay-fixed interest rate swap
Objective	Hedge changes in cash flows on the Series 2008 Refunding Variable Rate Bonds
Notional Amount	\$63,900,000
Effective Date	July 2, 2008
Maturity Date	May 1, 2019
Terms	Pay 4.387%, receive 67% of One Month LIBOR

The fair value of this interest rate swap is estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rate implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the swap.

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

The fair value balance for the hedging derivative instrument outstanding at June 30, 2010, and the change in fair value of the instrument for the year ended June 30, 2010, as report in the 2010 financial statements are as follows:

Changes in fair value: <u>Classification</u> Increase (decrease)	<u>Deferred outflow</u> \$(2,658)
Fair value at June 30, 2010 <u>Classification</u> Amount	<u>Debt</u> \$7,271

Risks

Credit Risk

The credit ratings of the counterparty to the interest rate swap are A1 from Moody's, A+ from Standards & Poors, and A+ from Fitch. The interest rate swap agreement requires certain collateralization if the credit rating of the counterparty falls below specific levels. As of June 30, 2010, no collateralization was required by the interest rate swap agreement.

Interest rate risk

Parkways is not exposed to interest rate risk on this interest rate swap.

Basis risk

Parkways is exposed to basis risk on the fixed interest rate swap because the variable-rate payments received by Parkways on this hedging derivative instrument are based on an index other than interest rates Parkways pays on the hedged variable-rate debt, which are remarketed every week. As of June 30, 2010, the weighted-average interest rate on Parkways' hedged variable-rate debt was 3.25%, while 67% of the one month LIBOR was .80%.

Termination risk

The interest rate swap agreement provides for certain events that could cause the counterparty or Parkways to terminate the swap. The swap may be terminated by the counterparty or Parkways if the other party fails to make payments when due, there is a material breach of representations and warranties, an event of illegality occurs, and failure to comply with any other provisions of the agreement after a specified notice period.

In addition, if counterparty fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by Parkways. If Parkways fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by the counterparty. The amount of the termination payment is determined by market quotation by obtaining pricing levels from at least three reference market makers.

Parkways has the right to optionally terminate the swap agreement at any time. The termination amount owed by either Parkways or the counterparty may be determined by market quotation. If at the time of termination the swap has a negative fair value, Parkways would owe the counterparty a payment equal to the swap's fair value.

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Rollover risk

Parkways is exposed to rollover risk on the hedging interest rate swap that may be terminated prior to the maturity of the hedged debt.

Swap Payments and Associated Debt

Using rates as of June 30, 2010, 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.

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
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	5,600	1,013	398	7,011
2016-2019	<u>25,100</u>	<u>2,115</u>	<u>802</u>	<u>28,017</u>
	<u>\$ 50,500</u>	<u>\$ 8,845</u>	<u>\$ 3,497</u>	<u>\$ 62,842</u>

Bonds Payable Progression and Maturities

The following schedule summarizes the revenue bonds outstanding as of June 30, 2010:

2010	Beginning Balance	Additions	Retired	Amortization	Ending Balance	Due Within One Year
Series 2001	\$ 6,151	\$ -	\$ (6,151)	\$ -	\$ -	\$ -
Series 2002	26,115	-	(2,205)	270	24,180	2,435
Series 2008	<u>48,893</u>	<u>-</u>	<u>(4,300)</u>	<u>616</u>	<u>45,209</u>	<u>4,700</u>
	<u>\$ 81,159</u>	<u>\$ -</u>	<u>\$ (12,656)</u>	<u>\$ 886</u>	<u>\$ 69,389</u>	<u>\$ 7,135</u>

Debt service requirements for the Revenue Bonds subsequent to June 30, 2010, are as follows:

Year Ending June 30	Principal Maturities	Interest, Including Accretion	Total
2011	\$ 7,135	\$ 3,585	\$ 10,720
2012	7,120	3,281	10,401
2013	7,895	2,913	10,808
2014	7,910	2,548	10,458
2015	8,540	2,177	10,717
2016-2019	<u>38,395</u>	<u>4,507</u>	<u>42,902</u>
	<u>\$ 76,995</u>	<u>\$ 19,011</u>	<u>\$ 96,006</u>

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

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, 2010, Parkways' estimated arbitrage rebate liability was zero.

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' ARC was \$3,578, \$1,575, and \$1,894, and paid premiums of \$695, \$797, and \$915, which represent 19.44%, 50.62%, and 48.29% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. The cost of the OPEB Plan which resulted in net liabilities of \$ 4,144 are included in the Parkways Balance Sheet as of June 30, 2010.

NOTE 11: 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 (through May 2010) 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, 2011 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, 2010 the Department incurred payroll related expenditures of approximately \$26,808 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$21,369 in employer matching contributions to the State Public Retirement System.

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

NOTE 12: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Department with various contractors approximated \$655,569 at June 30, 2010. In addition, Parkways had contractual commitments totaling \$16,171 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, 2010, there were approximately 416 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.

From time to time, the Railroad and Parkways become a defendant in certain legal proceedings pertaining to matters incidental to routine operations. Currently, Parkways is a defendant, however based on the current status of these legal proceedings, it is the opinion of Parkways' management and counsel that the ultimate resolution of these matters will not have a material effect on Parkways' financial position.

NOTE 13: 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 15.5% of annual covered payroll, including the Department's contribution of 11% which is established by PERS. The Department's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$21,369, \$19,838, and \$18,557, respectively, equal to the required contributions for each year.

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

NOTE 13: RETIREMENT PLAN (Continued)

Discretely Presented Component Units:

State Rail Authority's contributions to PERS for the years ended June 30, 2010, 2009 and 2008 were \$62, \$67 and \$66.

Parkways' contributions to PERS for the years ended June 30, 2010, 2009 and 2008 were \$1,681, \$1,541 and \$1,594.

NOTE 14: 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 10, 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 10.

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, 601 57th Street, Charleston, WV 25304, or by calling 1-888-680-7342.

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

NOTE 15: SUBSEQUENT EVENTS

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

Pursuant to Senate Bill 427, Parkways' legal name was changed to the West Virginia Parkways Authority effective July 1, 2010.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Government Funds
ASSETS					
Assets					
Cash and cash equivalents	\$ 16,696	\$ 890	\$ 4,369	\$ 11,794	\$ 33,749
Receivables	392	34	164	-	590
Inventories	1,475	-	-	-	1,475
Other assets	521	-	-	-	521
Total assets	<u>19,084</u>	<u>924</u>	<u>4,533</u>	<u>11,794</u>	<u>36,335</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	453	-	63	-	516
Accrued payroll and related liabilities	101	30	8	10	149
Other post employment benefits liabilities	5,809	84	20	38	5,951
Due to other State of West Virginia agencies	2,168	-	-	-	2,168
Due to other states	2,955	-	-	-	2,955
Total liabilities	<u>11,486</u>	<u>114</u>	<u>91</u>	<u>48</u>	<u>11,739</u>
Fund balances					
Nonspendable	1,475	-	-	-	1,475
Assigned	6,123	810	4,442	11,746	23,121
Total fund balances	<u>7,598</u>	<u>810</u>	<u>4,442</u>	<u>11,746</u>	<u>24,596</u>
Total liabilities and fund balances	<u>\$ 19,084</u>	<u>\$ 924</u>	<u>\$ 4,533</u>	<u>\$ 11,794</u>	<u>\$ 36,335</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
COMBINING CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Government Funds
Revenues					
Taxes					
Aviation fuel	\$ -	\$ -	\$ 1,029	\$ -	\$ 1,029
License, fees and permits					
Motor vehicle registrations and licenses	4,302	-	-	-	4,302
Federal aid	6,679	20,247	-	-	26,926
Intergovernmental	-	3,017	1,096	4,613	8,726
Interest Income	-	-	6	2	8
Miscellaneous revenues	-	518	-	-	518
	<u>10,981</u>	<u>23,782</u>	<u>2,131</u>	<u>4,615</u>	<u>41,509</u>
Expenditures					
Other federal aid programs	6,679	20,247	-	-	26,926
Support and administrative operations	7,136	3,551	1,973	401	13,061
	<u>13,815</u>	<u>23,798</u>	<u>1,973</u>	<u>401</u>	<u>39,987</u>
Excess (deficiency) of revenue over expenditures	(2,834)	(16)	158	4,214	1,522
Fund balances, beginning of year (previously reported)	12,361	852	4,289	7,539	25,041
Prior period adjustment	(1,929)	(26)	(5)	(7)	(1,967)
Fund balances, beginning of year (restated)	<u>10,432</u>	<u>826</u>	<u>4,284</u>	<u>7,532</u>	<u>23,074</u>
Fund balances, end of year	<u>\$ 7,598</u>	<u>\$ 810</u>	<u>\$ 4,442</u>	<u>\$ 11,746</u>	<u>\$ 24,596</u>

COMPLIANCE AND INTERNAL CONTROL REPORTS

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

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, 2010, and have issued our report thereon dated December 6, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2010-1, 2010-3, and 2010-4 in the accompanying schedule of findings and questioned costs to be material weaknesses.

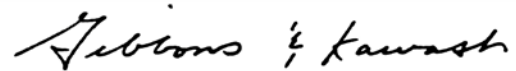
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2010-2 in the accompanying schedule of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

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 federal awarding agencies, pass-through entities, management of the West Virginia Department of Transportation and the Joint Committee on Government and Finance of the West Virginia Legislature and is not intended to be and should not be used by anyone other than these specified parties.



December 6, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON 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 of the West Virginia Department of Transportation's (the Department) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Departments' major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

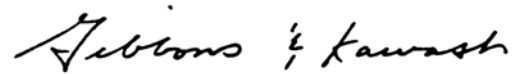
Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-5. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Department's response 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 federal awarding agencies, pass-through entities, management of the West Virginia Department of Transportation and the Joint Committee on Government and Finance of the West Virginia Legislature and is not intended to be and should not be used by anyone other than these specified parties.



December 6, 2010

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>*Divisions within the Department</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Schools and Roads - Grants to States	DOH	10.665	<u>\$ 403,390</u>
Total U.S. Department of Agriculture			<u>403,390</u>
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	339,217,759
Highway Planning and Construction	DOH	20.205 ARRA	105,958,520
Recreational Trails Program	DOH	20.219	1,041,900
Appalachian Development Highway System	DOH	23.003	75,350,908
Federal Transit Capital Improvement Grant	PT	20.500	8,449,130
Federal Transit Technical Studies Grant	PT	20.505	11,880
Public Transportation for Nonurbanized Areas	PT	20.509	5,033,865
Public Transportation for Nonurbanized Areas	PT	20.509 ARRA	5,342,111
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	888,972
Job Access Reverse Commute	PT	20.516	382,017
New Freedom Program	PT	20.521	139,264
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	1,453,224
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	488,456
Safety Belt Performance Grant	DMV	20.609	733,252
State Traffic Safety Information System Improvement Grants	DMV	20.610	140,802
Incentive Grant Program to Prohibit Racial Profiling	DMV	20.611	68,765
Incentive Grant Program to Increase Motorcycle Safety	DMV	20.612	177,193
Child Safety and Child Booster Seat Incentive Grants	DMV	20.613	148,476
Alcohol Open Container Requirements	DMV	20.607	716,519
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	DMV	20.608	2,700,365
National Highway Transportation Safety Administration Discretionary Safety Grants	DOH	20.614	<u>48,787</u>
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			<u>548,492,165</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>9,842,739</u>
Total U.S. Department of Homeland Security			<u>9,842,739</u>
Total Federal Expenditures			<u>\$ 558,738,294</u>

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

See Independent Auditors' Report and accompanying Notes to the Schedule of Expenditures of Federal Awards.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

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, 2010. 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 Subrecipients</u>
Highway Planning and Construction	20.205	\$ 7,658,305
Recreational Trails Program	20.219	1,059,725
Federal Transit Capital Improvement Grant	20.500	8,409,601
Public Transportation for Nonurbanized Areas	20.509	3,284,797
Public Transportation for Nonurbanized Areas	20.509 ARRA	1,494,598
Capital Assistance Program for Elderly Persons and Persons with And Persons with Disabilities	20.513	112,366
Job Access Reverse Commute	20.516	248,437
New Freedom Program	20.521	71,197
State and Community Highway Safety	20.600	936,211
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Incentive Grants	20.601	117,278
Alcohol Open Container Requirements	20.607	567,705
Safety Belt Performance Grants	20.609	705,123
State Traffic Safety Information System Improvement Grants	20.610	40,459
Incentive Grant Program to Prohibit Racial Profiling	20.611	48,328
Incentive Grant Program to Increase Motorcycle Safety	20.612	72,777
Child Safety and Child Booster Seat Incentive Grants	20.613	117,606
		<u>\$ 24,944,513</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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	<u> X </u>	Yes	_____	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u>	Yes	_____	No
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	_____	Yes	<u> X </u>	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u>	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?	<u> X </u>	Yes	_____	No

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

Year Ended June 30, 2010

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
20.500	Federal Transit Capital Improvement Grant
20.509	Public Transportation for Non urbanized Areas
ARRA-20.509	Public Transportation for Non urbanized Areas
	Highway Safety Cluster
20.600	State and Community Highway Safety
20.601	Alcohol Traffic Safety and Drunk Driving Prevention and Incentive Grants
20.609	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
20.613	Child Safety and Child Booster Seat Incentive Grants
	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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2010

Section II - Financial Statement Findings

Primary Government:

2010-1 FINANCIAL REPORTING - CAPITAL ASSETS

Criteria:

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

Condition:

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

Cause:

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

Context:

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

Effect:

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

Recommendation:

To ensure that capitalized expenditures and related depreciation expense are complete and accurate, management should establish procedures to ensure that the project completion date in the project management system is accurate. The Department 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, 2010

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2010-1 FINANCIAL REPORTING - CAPITAL ASSETS (Continued)

Views of Responsible Officials:

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

2010-2 INFORMATION TECHNOLOGY SYSTEM CONTROLS

Criteria:

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

Condition:

The 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 process to grant, modify, or revoke user rights within PRS is not formally documented and reviewed.

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, 2010

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2010-2 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.

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.
- Document the process for changing existing user rights within PRS. This documentation should include the change requested, individual making the request, and appropriate supervisory review and approval of the change.

Views of Responsible Officials:

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

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

Year Ended June 30, 2010

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2010-3 NON-FEDERAL AID RECEIVABLE RECONCILIATION

Criteria:

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

Condition:

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

Cause:

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

Context:

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

Effect:

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

Recommendation:

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

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

Year Ended June 30, 2010

Section II - Financial Statement Findings (Continued)

Primary Government (Continued):

2010-3 NON-FEDERAL AID RECEIVABLE RECONCILIATION (Continued)

Views of Responsible Officials:

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

Discretely Presented Component Unit Findings:

PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY -

2010-4 Review and Approval of Cash Disbursements

Condition:

The Treasurer, one of three authorized signatories on the Parkways' checks, pre-signs approximately 50 manual checks at a time and leaves them in the possession of the accounts payable clerk. When a manual check is needed the accounts payable clerk prepares the check, attaches the required support for payment, and forwards them to the Director of Finance or the General Manager to approve the disbursement and add the second required signature.

Criteria:

Expenditures should be properly approved and authorized prior to the disbursement being made. To achieve this, the Parkways has established controls that require each check disbursement to be signed by two of the three authorized signatories on the account. The Treasurer serves as a key component in this control procedure.

Context:

The amount of disbursements made by pre-signed manual checks is material to the Parkways' financial statements.

Effect:

Cash disbursements can and have been made without proper review and approval. Accordingly, the control procedures over manual check based cash disbursements is not functioning as designed.

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

Year Ended June 30, 2010

Section II - Financial Statement Findings (Continued)

PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY - (Continued)

2010-4 Review and Approval of Cash Disbursements (Continued)

Cause:

Parkways has established control procedures that do not meet the objectives for which control was designed.

Recommendation:

Management should establish procedures that prohibit the pre-signing of any checks by the authorized signatories. Management should consider the need to add additional appropriate signatories to the account to ensure that each disbursement is properly reviewed and approved.

Views of Responsible Officials:

Parkways has an established program of disbursing checks twice per month on approximately the 10th and the 25th and currently produces approximately 450 to 550 checks in each of the two check runs. This procedure has worked efficiently and helps to ensure expenses incurred are included in the proper month for accounting reporting purposes by allowing extra time for processing the paperwork past month-end.

From time-to-time, and normally beyond the control of Parkways, checks are required to be distributed immediately in between the normal check dates. To compensate for the fact that the Treasurer is not on-site and is normally unavailable on short notice, the above described system was established where checks were signed by the Treasurer to be later processed for payment. Concurrently, procedures were established for the physical custody of these checks and to ensure the Treasurer access to the required support for payment. While this procedure has worked many years without incident, management acknowledges the concerns expressed above.

As a result, management has made significant efforts to further limit the number of manual checks written such as substituting an electronic transfer of funds for certain items related to payroll, utilizing petty cash, or by using credit cards where possible. While these efforts have been successful, there will still be a need at certain times for manual checks. As a result, Parkways will be making two updates to its current banking resolution. First, the Director of Operations will be added as an allowed signatory on the accounts and second, the resolution will be updated allow for only one authorized signature for checks of less than \$1,000 while continue to require dual signatures for checks of \$1,000 or more. A dollar limit on the total amount of single signature checks issued each month will also be instituted as part of this resolution. Together with the reduction in the number of manual checks issued, these changes will allow Parkways to continue to operate efficiently without requiring the Treasurer to pre-sign checks.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2010

Section III - Federal Award Findings and Questioned Costs

2010 - 5 INFORMATION TECHNOLOGY SYSTEMS CONTROLS

	<u>CFDA Number</u>
U.S. Department of Transportation, U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Highway Planning and Construction	ARRA-20.205
Appalachian Development Highway System	23.003
Recreational Trails Program	20.219
Federal Transit Capital Improvement Grant	20.500
Public Transportation for Non urbanized Areas	20.509
Public Transportation for Non urbanized Areas	ARRA-20.509
Highway Safety Cluster	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention and Incentive Grants	20.601
Safety Belt Performance Grants	20.609
State Traffic Safety Information System Improvement Grants	20.610
Incentive Grant Program to Prohibit Racial Profiling	20.611
Incentive Grant Program to Increase Motorcycle Safety	20.612
Child Safety and Child Booster Seat Incentive Grants	20.613
U.S. Department for Homeland Security	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036

Significant Deficiency:

The significant deficiency at finding 2010-2 applies to those federal award programs.

Questioned Costs:

None.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

Prior Audit Findings:

As of June 30, 2010, prior findings 2009-2, 2009-5, 2009-6, 2009-7, 2009-8, 2009-9, and 2009-10 have been resolved.

Audit finding 2009-1 has been repeated in finding 2010-1.

Audit finding 2009-3 has been repeated in finding 2010-2.

Audit finding 2009-4 has been repeated in finding 2010-3.

Corrective Action Plan Provided by Management:

See management responses to current audit findings in the schedule of findings and questioned costs.