

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

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

AUDITED FINANCIAL STATEMENTS  
WITH OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3 - 4
Management's Discussion and Analysis - (Unaudited)	6 - 14
Basic Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Fund	18
Reconciliation of the Balance Sheet - Governmental Fund to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – State Road Fund	22
Notes to Financial Statements	23 - 45
Required Supplementary Information:	
Schedule of Proportionate Share of the Net Pension Liability	47
Schedule of Pension Contributions	48
Note to Required Supplementary Information	49
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50 - 51
Schedule of Audit Findings and Responses	52 - 58



## INDEPENDENT AUDITOR'S REPORT

Joint Committee on Government and Finance  
West Virginia Legislature  
Charleston, West Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division), a component unit of the State of West Virginia and the State of West Virginia Department of Transportation, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Division as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 14 and the pension schedules and related note on pages 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities and each major fund of the State of West Virginia and the West Virginia Department of Transportation that is attributable to the transactions of the Division. They do not purport to, and do not present fairly the financial position of the State of West Virginia and West Virginia Department of Transportation, as of June 30, 2017, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 on our consideration of the Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Charleston, West Virginia  
November 6, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2017. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT**

**Net Position** - The net position of the Division was \$8 billion at the close of fiscal year 2017.

**Changes in Net Position** - During the year the Division's net position increased by \$101 million or 1.29%. This percentage is an increase from the prior year, when net position increased \$41 million or 0.52%.

**Revenues and Expenses** - Total revenues increased by \$33 million or 2.75%. Total expenses decreased \$27 million or 2.31%. There were no significant changes in the programs carried out by the Division during the year.

**Governmental Fund - Fund Balances** - As of the close of fiscal year 2017, the Division's governmental fund reported combined total fund equity of \$120 million, an increase of \$66 million in comparison with the prior year.

**Long-term Debt** - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$18 million during the current fiscal year. The Division's total outstanding special obligation notes, net of note premium, increased by \$58 million increasing total long-term debt by 20.79% during the current fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the Division's financial statements. The Division's financial statements are comprised of five components, government-wide financial statements, fund financial statements, statements of revenues, expenditures, and change in fund balances – budget and actual, notes to the financial statements, and required supplementary information.

#### **Government-wide Statements**

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

#### **Fund Financial Statements**

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

#### **Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**

The budget and actual statement report the originally submitted budget along with budget amendments that are combined to arrive at the final budget. The final budget amounts are then compared to the actual operating results for the same fiscal year to arrive at variances.

#### **Notes to the Financial Statements**

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

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

### Required Supplementary Information

Required supplementary information includes the presentation of this management's discussion and analysis and certain information concerning the Division's progress in funding its proportionate share of providing pension benefits to its employees through its participation in the Public Employees Retirement System.

### CONDENSED FINANCIAL INFORMATION

#### Condensed Statement of Net Position

The following condensed financial information was derived from the government-wide statement of net position and summarizes the Division's net position as of June 30, 2017 and 2016 (amounts in thousands).

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

#### Condensed Statement of Net Position June 30,

	2017	2016	% Change
<b>Assets and deferred outflows of resources</b>			
Total current assets	\$ 399,114	\$ 321,843	24.01%
Capital assets	8,210,739	8,175,525	0.43%
Total assets	<u>8,609,853</u>	<u>8,497,368</u>	1.32%
Deferred outflows of resources	83,857	70,091	19.64%
Total assets and deferred outflows of resources	<u>8,693,710</u>	<u>8,567,459</u>	1.47%
<b>Liabilities and deferred inflows of resources</b>			
Total current liabilities	323,201	300,971	7.39%
Long term liabilities	<u>374,089</u>	<u>323,993</u>	15.46%
Total liabilities	697,290	624,964	11.57%
Deferred inflows	<u>20,247</u>	<u>67,790</u>	-70.13%
Total liabilities and deferred inflows of resources	<u>717,537</u>	<u>692,754</u>	3.58%
<b>Net Position</b>			
Net investment in capital assets	7,967,600	7,969,214	-0.02%
Restricted	12,737	12,031	5.87%
Unrestricted (Deficit)	<u>(4,164)</u>	<u>(106,540)</u>	96.09%
Total net position	<u>\$ 7,976,173</u>	<u>\$ 7,874,705</u>	1.29%

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

**Condensed Statement of Activities**

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

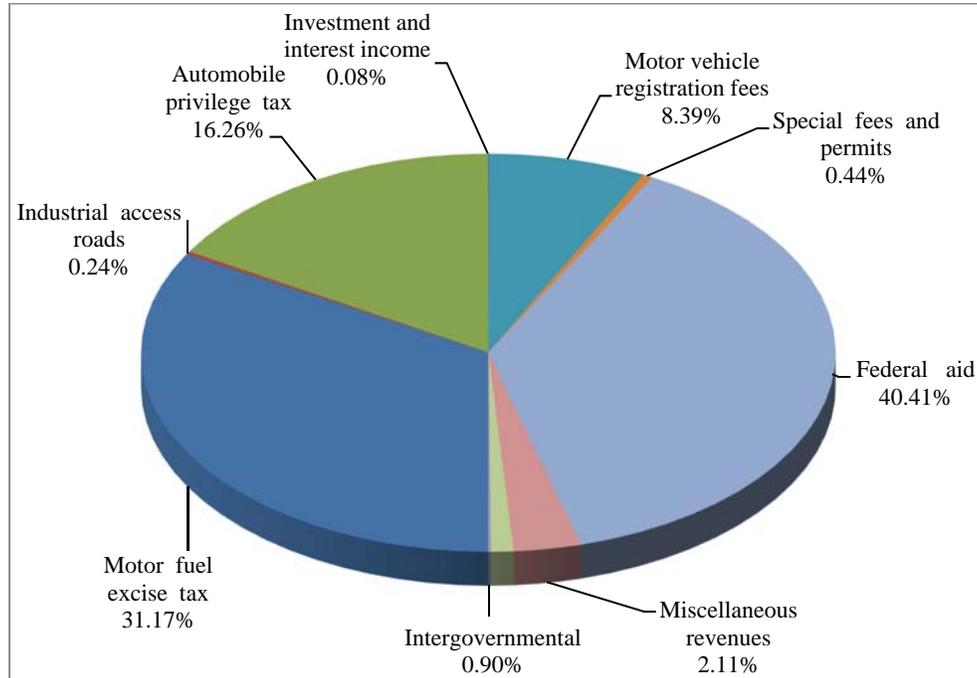
**Condensed Statement of Activities  
Years Ended June 30,**

	2017	2016	% Change
<b>Revenues</b>			
Taxes	\$ 593,158	\$ 605,403	-2.02%
Investment and interest income	987	420	135.00%
Intergovernmental (unrestricted)	11,285	12,492	-9.66%
Miscellaneous revenues	26,346	38,253	-31.13%
Gain (loss) on sale of assets	-	1,608	-100.00%
Total general revenues	<u>631,776</u>	<u>658,176</u>	-4.01%
Capital grants and contributions	508,313	463,871	9.58%
Charges for service	<u>110,499</u>	<u>95,090</u>	16.20%
Total program revenues	<u>618,812</u>	<u>558,961</u>	10.71%
Total revenues	<u>1,250,588</u>	<u>1,217,137</u>	2.75%
<b>Expenses</b>			
Road maintenance	405,378	433,543	-6.50%
Other road operations	672,424	658,569	2.10%
General and administration	60,374	75,640	-20.18%
Interest on long-term debt	5,087	3,473	46.47%
Unallocated depreciation	<u>5,857</u>	<u>5,127</u>	14.24%
Total expenses	<u>1,149,120</u>	<u>1,176,352</u>	-2.31%
Change in net position	101,468	40,785	-148.79%
Net position, beginning	<u>7,874,705</u>	<u>7,833,920</u>	0.52%
Net position, ending	<u>\$ 7,976,173</u>	<u>\$ 7,874,705</u>	1.29%

Over time, increases and decreases in net position measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net position of the governmental activities increased by \$101 million or 1.29%.

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

The following chart depicts the revenues under the accrual basis of accounting for the Division for the fiscal year.



Total revenues increased by approximately \$33 million. Total tax revenues increased by approximately \$3.2 million. Federal aid revenue increased by approximately \$44 million or 9.64%. The following summarizes revenues for the years ended June 30, 2017 and June 30, 2016 (amounts in thousands):

	2017	2016	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 389,753	\$ 404,321	\$ (14,568)	-3.60%
Industrial access roads	3,000	3,000	-	0.00%
Automobile privilege tax	203,405	201,082	2,323	1.16%
Motor vehicle registration fees	104,923	89,560	15,363	17.15%
Special fees and permits	5,576	5,530	46	0.83%
Federal aid	505,313	460,871	44,442	9.64%
Investment and interest income	987	420	567	135.00%
Intergovernmental	11,285	12,492	(1,207)	-9.66%
Miscellaneous revenues	26,346	38,253	(11,907)	-31.13%
Gain on sale of assets	-	1,608	(1,608)	-100.00%
	<u>\$ 1,250,588</u>	<u>\$ 1,217,137</u>	<u>\$ 33,451</u>	2.75%

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

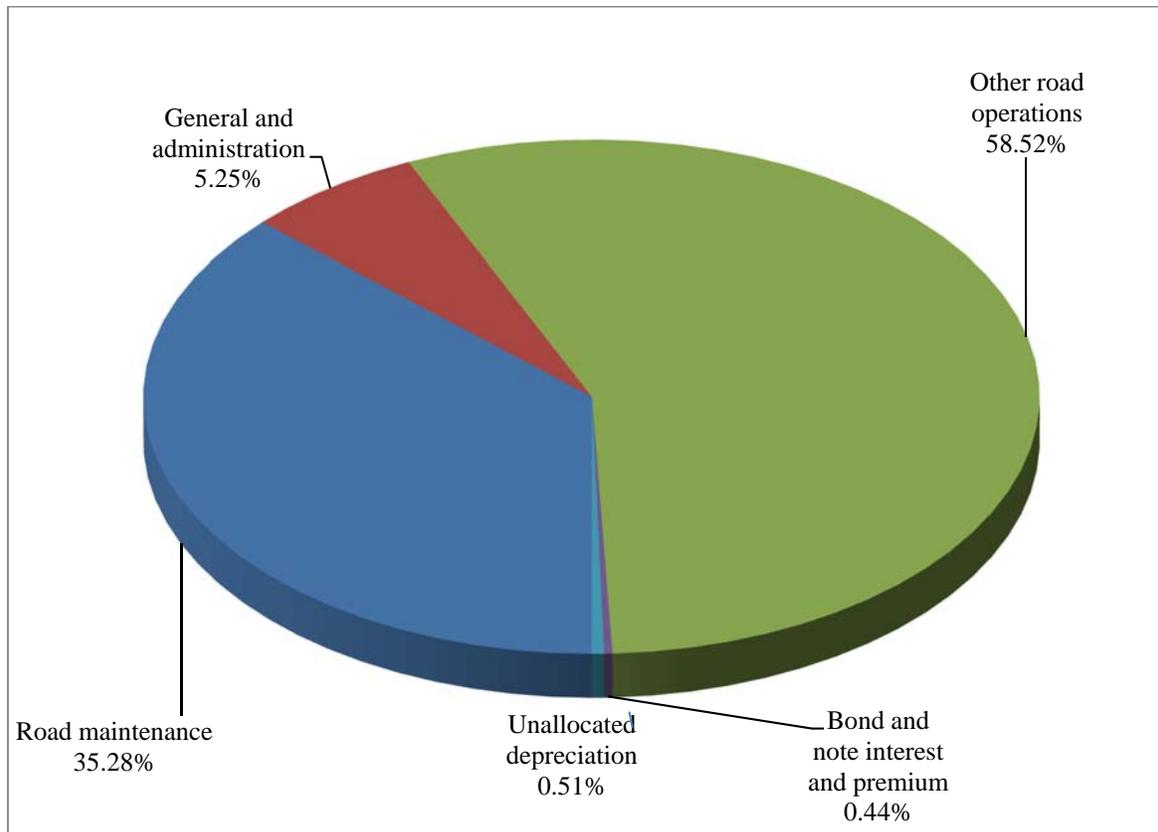
The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the state road system and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration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

Fiscal year 2017 tax collections reported on a cash basis increased by \$0.2 million (0.02%) from fiscal year 2016 tax collections. Motor fuel tax collections were \$6.9 million (-1.78%) below estimates and \$15.1 million (-3.81%) lower than fiscal year 2016 collections. Privilege tax collections were \$14.5 million (7.67%) above estimates but \$2.1 million (-1.04%) below fiscal year 2016 collections. Registration fee collections were \$12.3 million (13.34%) above estimates and \$17.4 million (19.97%) above fiscal year 2016 collections. In fiscal year 2018, motor fuel tax and privilege tax collections are projected to be higher than fiscal year 2017 actual collections. In addition, registration fee collections are estimated to be higher than fiscal year 2017 actual numbers. This is the result of the passage of West Virginia Senate Bill 1006. This bill provides for an increase in the Privilege tax collection, increases many DMV fees as well as an increased motor fuel tax rate. Therefore, many programs operated by the Division should experience additional funding for the foreseeable future versus what has been available in previous years.

The Division also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Division expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur and the Division requests reimbursement on specific projects that have qualified for federal participation. On December 4, 2015, the President signed into law the "Fixing America's Surface Transportation Act," or FAST Act which is a five-year surface transportation program authorizing funding for highway and public transportation investments. The FAST Act is the first long-term transportation legislation to pass Congress in ten years and thus, provides stability to the Division in planning its transportation investments.

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

The following chart depicts expenses under the accrual basis of accounting for the Division for the fiscal year.



Total expenses decreased by approximately \$27 million or 2.31%. The following summarizes expenditures for the years ended June 30, 2017 and June 30, 2016 (amounts in thousands):

	2017	2016	Increase (Decrease)	% Increase (Decrease)
Road maintenance	\$ 405,378	\$ 433,543	\$ (28,165)	-6.50%
Other road operations	672,424	658,569	13,855	2.10%
General and administration	60,374	75,640	(15,266)	-20.18%
Interest on long-term debt	5,087	3,473	1,614	46.47%
Unallocated depreciation	5,857	5,127	730	14.24%
	<u>\$ 1,149,120</u>	<u>\$ 1,176,352</u>	<u>\$ (27,232)</u>	-2.31%

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

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

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow removal and ice control (SRIC) that is required in a given year. In fiscal year 2017, the agency continued its core maintenance plan, which emphasizes ditching, mowing, rush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system. Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the Division's Fund Financial Statements below.

### FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUND

At June 30, 2017, the Division reported fund balances of approximately \$120 million. Of this total amount \$56 million constitutes unassigned fund balance while \$13 million is restricted for various purposes. The remainder of the fund balance is nonspendable and is not available for spending because it is comprised of inventories.

#### State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2017 fiscal year, unassigned fund balance of the General Fund was \$56 million and nonspendable fund balance was \$51 million while the restricted fund balance was \$13 million. The total General Fund balance increased \$66 million during the fiscal year primarily due to increased federal aid revenue and decreased road maintenance and support and administration operations.

#### State Road (General) Fund and Budgetary Highlights

The Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. The forecast for fuel consumption is still anticipated to trend downward as vehicles continue to become more fuel efficient. However, the recent passage of legislation (WV Senate Bill 1006) which raised the average wholesale price for motor fuel will enhance revenue collections in the short term. The same bill also provides for increased rates of both Privilege tax collections and registration fee collections which are forecast to increase revenues in fiscal year 2018. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Motor fuel excise	\$ 389,753	\$ 404,321	\$ (14,568)	-3.60%
Motor vehicle registration	104,923	89,560	15,363	17.15%
Privilege tax	<u>203,405</u>	<u>201,082</u>	<u>2,323</u>	1.16%
	<u>\$ 698,081</u>	<u>\$ 694,963</u>	<u>\$ 3,118</u>	0.45%

Motor fuel excise tax is imposed on the consumption of 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. The variable rate changed on January 1, 2017, when the rate fell from 12.7 cents to 11.7 cents per invoiced gallon.

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

The Division's federal revenue, on a budgetary basis for fiscal year 2017 was \$442,121, used primarily for design, right-of-way and construction of Corridor H, WV 10, US 35, Coalfields Expressway and system preservation projects on other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation and the Division requests reimbursement. 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>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement-Budgeted funds	\$ 464,864	\$ 400,098	\$ 64,766	16.19%
Federal reimbursement-Surface Transportation	511	27,499	(26,988)	-98.14%
Federal reimbursement-Emergency funds	39,938	33,274	6,664	20.03%
	<u>\$ 505,313</u>	<u>\$ 460,871</u>	<u>\$ 44,442</u>	9.64%

It is anticipated state revenues will increase in fiscal year 2018 when compared to fiscal year 2017. As a result of the passage of Senate Bill 1006 during the 2017 WV Legislative session, the Division anticipates an increase in motor fuel revenues. In addition, management anticipates seeing an increase in privilege tax and registration fee revenues. However, management will continue to monitor and maintain a fiscally sound equity position. The approved fiscal year 2018 budget is \$1.3 billion. If revenues received are lower than estimated, management is confident adequate discretionary expenditure items can be reduced to permit the Division to continue to operate in a fiscally sound manner.

The Division is currently operating under a Continuing Resolution of the federal highway funding authorization designated as Fixing America's Surface Transportation Act (FAST) Act (Pub. L. No. 114-94). The effective date for most highway provisions in FAST Act, both funding and changes to policy, was October 1, 2016 extending to September 30, 2020. The Division is currently operating under an extension of current fiscal 2017 spending levels past September 30, 2017, through December 8, 2017. Additional action from Congress will be necessary to increase the 2018 federal fiscal year funding levels to the FAST Act levels as well as extend the contract authority beyond December 8, 2017. West Virginia's federal fiscal year 2017 apportionment was \$432.4 million (\$442.7 million less the 2017 \$10.3 million rescission) and the total obligation limitation was \$446.7 million (due to additional funds provided through August 2017 redistribution of federal funds to the Division).

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2017, the Division had invested \$8.2 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$320 million.

As the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$300 million in depreciation of the infrastructure. The Division expended \$361 million dollars during the year ended June 30, 2017 for additions to capital assets. Of this amount, \$340 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 \$332 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to US 35 in Putnam County, WV 10 in Logan County, Coalfields Expressway in Wyoming County, and Corridor H in Tucker County and continued environmental studies on various projects in process.

### Long-term Debt

The Division has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2017, the Division had \$151 million in outstanding bonds. The amount outstanding decreased by \$15 million (9%) due to net principal payments.

The Division has also been authorized to issue revenue notes in the amount of \$500 million by constitutional amendment. The Division issued revenue notes in the amount of \$53 million in December 2016. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. The amount increased by \$53 million (100%) due to the sale of revenue notes.

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

Issue	Bond Rating	Amount (in thousands)
Safe Roads 10A - Bonds maturing on or before June 1, 2023.	Fitch: AA Moody's: Aa2 S&P: AA-	\$ 35,135
Safe Roads 15A - Bonds maturing on or before June 1, 2025.	Fitch: AA Moody's: Aa2 S&P: AA-	116,025
Surface Transportation Improvements Special Obligation Notes (Garvee 2016A) - Notes maturing on or before September 1, 2022.	Moody's: A2 S&P: AA	53,380
		<u>\$ 204,540</u>

More detailed information regarding capital asset and long-term debt activity is included in the notes 7 and 8, respectively to the financial statements.

## REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2017  
 (amounts expressed in thousands)

	Governmental Activities
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
Current assets	
Cash and cash equivalents	\$ 128,976
Accounts receivable, net	105,724
Taxes receivable	73,433
Due from other State of West Virginia agencies	16,444
Inventories	51,145
Investments	23,392
Total current assets	399,114
Non-current assets	
Capital assets not being depreciated	
Land - non-infrastructure	24,398
Land - infrastructure	1,187,099
Construction in progress	717,875
Capital assets net of accumulated depreciation	
Land improvements	11,006
Buildings	111,403
Furniture and fixtures	362
Rolling stock	54,927
Scientific equipment	66
Shop equipment	108
Roads	3,630,308
Bridges	2,473,187
Total capital assets	8,210,739
Total assets	8,609,853
Deferred outflows of resources	
Deferred outflows of resources - pension	83,857
Total deferred outflows of resources	83,857
Total assets and deferred outflows of resources	8,693,710
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	
Current liabilities	
Accounts payable	89,842
Retainages payable	1,133
Accrued payroll and related liabilities	16,990
Other post employment benefits liability	152,729
Due to other State of West Virginia agencies	4,161
Accrued interest payable	1,490
Unearned revenue	14,438
Current maturities of long term obligations	42,418
Total current liabilities	323,201
Non-current liabilities	
Claims and judgments	27,980
Compensated absences	3,764
Net pension liability	139,665
Bonds and notes	202,680
Total non-current liabilities	374,089
Total liabilities	697,290
Deferred inflows of resources	
Deferred inflows of resources - pension	7,966
Deferred inflows of resources - gain on refunding	12,281
Total deferred inflows of resources	20,247
Total liabilities and deferred inflows of resources	717,537
<b>NET POSITION</b>	
Net investment in capital assets	7,967,600
Restricted	
Coal Resource	1,141
Waste Tire	4,492
Industrial Access	7,104
Unrestricted (deficit)	(4,164)
Total net position	\$ 7,976,173

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,  
 DIVISION OF HIGHWAYS  
 STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Position
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline, feeder, and State and local services	\$ 329,786	\$ -	\$ -	\$ (329,786)
Contract paving & secondary roads	41,259	-	-	(41,259)
Small bridge repair & replacement	15,960	-	-	(15,960)
Litter control program	4,138	-	-	(4,138)
Depreciation	14,235	-	-	(14,235)
Other road operations				
Interstate highways	52,200	-	54,484	2,284
Appalachian highways	18,796	-	88,782	69,986
Other federal aid programs	292,281	-	362,047	69,766
Non federal aid improvements	7,582	-	-	(7,582)
Industrial access roads	1,573	-	3,000	1,427
Depreciation	299,992	-	-	(299,992)
General and administration				
Support and administrative operations	57,053	5,576	-	(51,477)
Claims	(36,732)	-	-	36,732
Costs associated with the Division of Motor Vehicles	38,574	104,923	-	66,349
Costs associated with the Office of Administrative Hearings	1,479	-	-	(1,479)
Interest on long-term debt	5,087	-	-	(5,087)
Unallocated depreciation	5,857	-	-	(5,857)
	<u>\$ 1,149,120</u>	<u>\$ 110,499</u>	<u>\$ 508,313</u>	<u>(530,308)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				389,753
Automobile privilege				203,405
Investment and interest income				987
Intergovernmental (unrestricted)				11,285
Miscellaneous revenues				26,346
Total general revenues				<u>631,776</u>
Change in net position				101,468
Net position, beginning				<u>7,874,705</u>
Net position, ending				<u>\$ 7,976,173</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,  
 DIVISION OF HIGHWAYS  
 BALANCE SHEET - GOVERNMENTAL FUND  
 JUNE 30, 2017  
 (amounts expressed in thousands)

	State Road (General)
<b>ASSETS</b>	
Assets	
Cash and cash equivalents	\$ 128,976
Receivables	105,724
Taxes receivable	73,433
Due from other State of West Virginia agencies	16,444
Inventories	51,145
Investment	23,392
Total assets	\$ 399,114
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Accounts payable	\$ 89,842
Retainages payable	1,133
Accrued payroll and related liabilities	16,990
Unearned revenue	14,438
Other post employment benefits	152,729
Due to other State of West Virginia agencies	4,161
Total liabilities	279,293
Fund balances	
Non-spendable	
Inventories	51,145
Restricted	
Construction and maintenance of industrial access roads	7,104
Construction and maintenance of coal resource roads	1,141
Waste tire clean up and disposal	4,492
Unassigned	55,939
Total fund balances	119,821
Total liabilities and fund balances	\$ 399,114

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,  
DIVISION OF HIGHWAYS  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017  
(amounts expressed in thousands)

Total fund balance - governmental fund \$ 119,821

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

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

Capital assets not being depreciated		
Land - non-infrastructure	\$ 24,398	
Land - infrastructure	1,187,099	
Construction in progress	717,875	
Capital assets net of accumulated depreciation		
Land improvements	11,006	
Buildings	111,403	
Furniture and fixtures	362	
Rolling stock	54,927	
Scientific equipment	66	
Shop equipment	108	
Roads	3,630,308	
Bridges	<u>2,473,187</u>	8,210,739

Deferrals of resources related to pensions that represent a consumption of net position that applies to a future period, and therefore, is reported as a deferred outflow of resources in the statement of net position: 83,857

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

Net pension liability	(139,665)	
Accrued interest payable	(1,490)	
Claims and judgments	(29,480)	
Compensated absences	(16,504)	
General obligation bonds and revenue notes	<u>(230,858)</u>	(417,997)

Deferrals of resources related to pensions and gain on refunding that represents an acquisition of net position that applies to a future period, and therefore, are reported as deferred inflows of resources in the statement of net position:

(20,247)

Net position of governmental activities \$ 7,976,173

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,  
DIVISION OF HIGHWAYS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

	State Road (General)
Revenues	
Taxes	
Gasoline and motor carrier	\$ 389,753
Automobile privilege	203,405
Industrial access roads	3,000
License, fees and permits	
Motor vehicle registrations and licenses	104,923
Special fees and permits	5,576
Federal aid	
Interstate highways	54,484
Appalachian highways	88,782
Other federal aid programs	362,047
Investment and interest income, net of arbitrage rebate	987
Intergovernmental (unrestricted)	11,285
Miscellaneous revenues	26,346
Total revenues	1,250,588
Expenditures	
Current	
Road maintenance	
Expressway, trunkline and feeder, state and local services	342,494
Contract paving and secondary roads	41,317
Small bridge repair and replacement	17,766
Litter control program	4,140
Support and administrative operations	59,019
Division of Motor Vehicles operations	38,574
Office of Administration Hearings operations	1,479
Claims	971
Capital outlay and other road operations	
Road construction and other road operations	
Interstate highways	71,261
Appalachian highways	127,751
Other federal aid programs	495,221
Nonfederal aid construction and road operations	18,581
Industrial access roads	1,573
Debt service	
Bond issuance costs	1
Principal	15,225
Interest	8,479
Total expenditures	1,243,852
Excess of revenues over expenditures	6,736
Other financing sources (uses)	
Sale of Bonds	57,803
Proceeds of sale of assets	1,222
Total other sources (uses)	59,025
Net change in fund balances	65,761
Fund balances, beginning of year	54,060
Fund balances, end of year	\$ 119,821

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

Net change in fund balance - governmental fund	\$	65,761
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the capital outlays \$361,285 exceeded the depreciation of (\$320,084) in the current period.		41,201
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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 position differs from the change in fund balance by the undepreciated cost of the assets sold.		(5,987)
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Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(43,153)
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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 of the decrease in claims of \$37,703 and decrease in compensated absences of \$511.		38,214
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Some expenses do not require the use of current financial resources and, therefore, are not reported in governmental funds. This is the amount of amortization of bond premium of \$3,253, an increase of interest payable of (\$826), pension expense of \$1,470, and amortized gain on bond refunding \$1,535.		<u>5,432</u>
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Change in net position of governmental activities	\$	<u><u>101,468</u></u>
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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
(BUDGETARY BASIS) - STATE ROAD FUND  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 388,200	\$ -	388,200	\$ 383,180	\$ (5,020)
Automobile privilege	189,575	-	189,575	204,111	14,536
Motor vehicle registrations and licenses	92,068	-	92,068	104,354	12,286
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	-	3,000
Federal aid	449,750	59,850	509,600	442,121	(67,479)
Miscellaneous revenues	36,310	-	36,310	24,339	(11,971)
	<u>1,152,903</u>	<u>59,850</u>	<u>1,212,753</u>	<u>1,158,105</u>	<u>(54,648)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	100,000	25,000	125,000	103,371	21,629
Appalachian highways	120,000	-	120,000	114,206	5,794
Other federal aid programs	432,000	-	432,000	430,041	1,959
Nonfederal aid construction	15,000	2,500	17,500	16,755	745
Road maintenance					
Maintenance	369,354	(5,000)	364,354	351,836	12,518
Contract paving and secondary roads	54,000	-	54,000	35,661	18,339
Small bridge repair and replacement	15,000	5,000	20,000	16,013	3,987
Litter control program	1,727	-	1,727	1,842	(115)
Support and administrative operations					
General operations	55,995	(10,000)	45,995	34,376	11,619
Equipment revolving	15,000	-	15,000	(2,382)	17,382
Inventory revolving	4,000	-	4,000	1,891	2,109
Debt service	24,000	-	24,000	23,629	371
Courtesy Patrol	3,000	2,000	5,000	3,479	1,521
Division of Motor Vehicles operations	43,379	-	43,379	39,624	3,755
Office of Administrative Hearings operations	1,952	-	1,952	1,490	462
Claims - DOH and DMV	983	-	983	971	12
	<u>1,255,390</u>	<u>19,500</u>	<u>1,274,890</u>	<u>1,172,803</u>	<u>102,087</u>
Excess (deficiency) of revenues over expenditures	(102,487)	40,350	(62,137)	(14,698)	47,439
Fund balance, beginning of year	<u>79,360</u>	<u>-</u>	<u>79,360</u>	<u>79,360</u>	<u>-</u>
Fund balance, end of year	<u>\$ (23,127)</u>	<u>\$ 40,350</u>	<u>\$ 17,223</u>	<u>\$ 64,662</u>	<u>\$ 47,439</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2017 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include but are not limited to the consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

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

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

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** - The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the activities of the primary government and its component units, if any. 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.

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

Net position is 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 position. The government-wide statement of net position reports \$12,737 restricted assets, of which all is restricted by enabling legislation.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, as necessary.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS** - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

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

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2017, has been reported only in the government-wide financial statements.
- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. Any employee who retires, however, may convert any unused accumulated sick leave to increase service credits for retirement purposes. Additionally, certain employees may choose to apply any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium in lieu of increasing their service credits. Those employees cannot split their unused leave between the two options.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in a debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.
- Pension expense is recorded when contributions are due in the governmental fund financial statements and is recorded when incurred in the government-wide financial statements.

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**INTERFUND ACTIVITY** - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2017 generally are a result of these routine payments and transfers.

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

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the Coal Resource Fund, Industrial Access Fund and certain monies reported within the State Road Fund in accordance with accounting principles generally accepted in the United States of America are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2017, on the budgetary basis to the GAAP basis for the State Road fund follows:

Deficiency of revenues over expenditures - budgetary basis	\$	(14,698)
Basis of accounting differences (budgetary to GAAP)		20,679
Unbudgeted funds		755
Excess of revenues over expenditures - GAAP basis	\$	6,736

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

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the BTI for investment in accordance with the West Virginia Code, policies set by the BTI, and provisions of bond indentures and trust agreements when applicable.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Non-infrastructure assets with a useful life of at least three years and:
  - A cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; or
  - An acquisition cost of one hundred 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 acquisition value.

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Buildings and non-infrastructure land have been recorded at cost since 1983. Infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the West Virginia Department of Transportation in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Division has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980. 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.

New construction is put into construction in process until completed. At that time the projects are evaluated to determine if they meet the threshold for capitalization. The projects that don't meet the threshold for capitalization are expensed.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS - Investments include amounts representing The County Commission of Monongalia Series 2014 B Excise Tax Revenue Bonds maturing June 2043 and bearing interest at 3.25% per annum and The County Commission of Monongalia Series 2014 A Property Tax Increment Revenue Bonds maturing June 2042 and bearing interest at 3.25% per annum issued as draw-down bonds with the principal amount of each respective obligation being represented by the portion of the principal amount of each respective series of Bonds which has been requisitioned by the Division and approved by the Issuer with the Trustee updating the register of advances maintained for each series of Bonds to reflect the principal amount of each Bond which has been purchased by the Division in conjunction with the development of an interstate interchange project. The total available principle amount of the Series 2014 B Excise Tax Revenue Bonds is \$21,830,000. The total available principal amount of the Series 2014 A Property Tax Increment Revenue Bonds is \$9,605,000.

The risks associated with these investments are affected by many factors, such as economic outlook, ability to collect projected tax revenue, and the ability to maintain property tax base. These investments are not readily marketable; therefore, no quoted prices are available. Because of uncertainties in the estimation process, estimated values may change in the near term, and those changes may be material.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment is exposed to interest rate risk, credit risk and concentration of credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Division will not be able to recover the value of the investment or collateral in the possession of an outside party. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment is not exposed to custodial credit risk and foreign currency risk.

Interest on the investment is recognized over the term of the bonds and is payable each June and December calculated using the stated interest rates on principal amounts received.

The Division measures its investments at fair value for financial reporting purposes. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. The Division categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America in accordance with GASB Statement No. 72.

The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs – Other than quoted prices included within Level 1, these are inputs that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The table below summarizes the recurring fair value measurements of the investments in accordance with GASB Statement No. 72 fair value hierarchy levels as of June 30, 2017.

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Local government bonds	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>      23,392</u>	\$ <u>      23,392</u>

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

**COMPENSATED ABSENCES** - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. During 2008, the legislature passed a bill allowing regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. Expenditures for compensated absences are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

**POSTEMPLOYMENT BENEFITS** - For employees hired prior to July 1, 2001, any unused sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes, based on hire dates, periods of service and benefit amendments. To the extent that eligible conversion and retirement benefits are determined, a liability in the governmental fund financial statements has been accrued as a result of the Division's participation on the State's post-employment benefits plan. See Note 12.

**PENSION** - For purposes of measuring the net pension liability, deferred outflows of resources and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Public Employees Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the PERS are reported at fair value.

**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 are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs. 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, other than bond insurance, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DEFERRED OUTFLOWS OF RESOURCES/DEFERRED INFLOWS OF RESOURCES - The statement of net position reports a separate financial statement element called *deferred outflows of resources*. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The Division reports \$83,857 as deferred outflows of resources related to pensions on the statement of net position.

The statement of net position reports a separate financial statement element called *deferred inflows of resources*. This financial statement element represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Division reports \$20,247 as deferred inflows of resources related to pensions and gain on the refunding of debt on the statement of net position.

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

NET POSITION - As required by GASB Standards, the Division displays net position in the government-wide financial statements in three components: invested in capital assets, net of related debt; restricted and unrestricted.

NET INVESTMENT IN CAPITAL ASSETS - This component of net position 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 POSITION - Restricted net position is assets whose use or availability has been restricted and the restrictions limit the Division's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Division's policy to use restricted resources first, then unrestricted resources as needed.

UNRESTRICTED NET POSITION - Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." In the governmental environment, net position is 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 position.

FUND BALANCE - The Division has classified in the governmental fund financial statements its fund balances in the following categories: nonspendable, restricted, committed, assigned and unassigned as applicable.

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

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 fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by appropriation legislation passed by the West Virginia State Legislature, which is the highest level of decision making authority for the State. Those committed amounts cannot be used for any other purpose unless the West Virginia State Legislature passes new legislation concerning those amounts. The Division has no committed fund balances at June 30, 2017.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned fund balances are constrained by the Division's intent to use such funds for specific purposes, but are neither restricted nor committed. The specific purpose for which the funds are intended is expressed within the appropriation requests of the Division and approved by the State Budget Office, according to the West Virginia State Code. Assigned fund balances include all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. The Division has no assigned fund balances at June 30, 2017.

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. Any negative fund balances are unassigned.

The Division first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts 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 Governmental Accounting Standards Board

The Division implemented Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets that accumulate for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The adoption of GASB Statement No. 73 had no impact on the June 30, 2017 financial statements.

The Division implemented Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption of GASB Statement No. 74 had no impact on the June 30, 2017 financial statements.

The Division implemented Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The adoption of GASB Statement No. 77 had no impact on the June 30, 2017 financial statements.

The Division implemented Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of GASB Statement No. 80 had no impact on the June 30, 2017 financial statements.

The Division implemented Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of GASB Statement No. 81 had no impact on the June 30, 2017 financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division implemented Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of GASB Statement No. 82 had no impact on the June 30, 2017 financial statements.

The Division implemented Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The adoption of GASB Statement No. 86 had no impact on the June 30, 2017 financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Division has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The Division has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The Division has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The Division has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The Division has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements

NOTE 2: CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents which are carried at amortized cost, were as follows at June 30:

Cash on deposit with State Treasurer	\$ 40,316
Cash on deposit with State Treasurer in Debt Service Fund	33
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	34,382
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool (GARVEE 2016A)	54,144
Cash on deposit with BNY Mellon Bank	7
Cash in transit	<u>94</u>
Total cash and cash equivalents	<u>\$ 128,976</u>

The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions, and transfers funds to the BTI for investment in accordance with West Virginia statutes, policies set by the BTI and provisions of bond indentures and trust agreements when applicable.

The Division's cash balances invested by the BTI in the West Virginia Money Market Pool include investment income pro-rated to the Division at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Investments in the West Virginia Money Market Pool are available to the Division with overnight notice. Remaining cash balances are on deposit or in transit to/from the State Treasurer.

**West Virginia Board of Treasury Investments (BTI) WV Money Market Pool**

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 the WV Money Market Pool, 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 the WV Money Market Pool.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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. The WV Money Market Pool is subject to credit risk.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated A+ by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. At June 30, 2017, the WV Money Market Pool investment had a total carrying value of \$1,782,953 of which the Division's ownership represents 1.93%.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WV Money Market Pool is 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, except for government floating rate notes, which can be up to 762 days. 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	\$ 110,800	3
U.S. Treasury notes	97,823	44
U.S. Treasury bills	69,837	88
Commercial paper	1,064,527	36
Certificates of deposit	330,476	41
Corporate bonds and notes	9,485	79
Money market funds	100,005	3
	<u>\$ 1,782,953</u>	36

**Other Risks**

Other risks can include concentration of credit risk, custodial credit risk, and foreign currency risk. The WV Money Market Pool is not exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the WV Money Market Pool or an account's investment in a single corporate issuer. The BTI investment policy prohibits the WV Money Market Pool from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk 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. 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 carrying value of an investment or a deposit. The WV Money Market Pool does not hold interests in foreign currency or interests valued in foreign currency.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

Federal aid billed and not paid	\$ 27,463
Federal aid earned but not billed	73,100
Total federal aid receivable	<u>100,563</u>
Other receivables	6,096
Combined total receivables	<u>106,659</u>
Less: allowance for uncollectibles	<u>(935)</u>
Net accounts receivable	<u><u>\$ 105,724</u></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 and Federal Emergency Management Agency (FEMA) participating expenditures in response to certain disaster related projects.

NOTE 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2017 consisted of the following:

Automobile privilege taxes	\$ 15,466
Motor fuel excise taxes	54,422
Registration fees	<u>3,545</u>
Total taxes receivable	<u><u>\$ 73,433</u></u>

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

Amounts due from other State of West Virginia agencies at June 30, 2017 consisted of the following:

The Department of Motor Vehicles	\$ 1,896
State Tax Department	11,285
Other agencies	<u>3,263</u>
Total amounts due from other State of West Virginia agencies	<u><u>\$ 16,444</u></u>

Amounts due to other State of West Virginia agencies at June 30, 2017 consisted of the following:

Public Employee's Insurance Agency	\$ 2,266
Public Employee's Retirement	1,660
Other agencies	<u>235</u>
Total amounts due to other State of West Virginia agencies	<u><u>\$ 4,161</u></u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

## NOTE 6: INVENTORIES

Inventories at June 30, 2017 consisted of the following:

Material and supplies	\$ 36,290
Equipment repair parts	12,227
Gas and lubrication supplies	<u>2,628</u>
Total inventories	<u>\$ 51,145</u>

## NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land - non infrastructure	\$ 24,398	\$ -	\$ -	\$ 24,398
Land - infrastructure	1,124,458	62,641	-	1,187,099
Construction-in-progress - buildings	3,433	4,355	381	7,407
Construction-in-progress - land improvements	260	801	569	492
Construction-in-progress - roads	691,591	197,815	289,887	599,519
Construction-in-progress - bridges	<u>73,286</u>	<u>79,713</u>	<u>42,542</u>	<u>110,457</u>
Total capital assets not being depreciated	<u>1,917,426</u>	<u>345,325</u>	<u>333,379</u>	<u>1,929,372</u>
Capital assets being depreciated:				
Buildings	177,342	381	135	177,588
Furniture and fixtures	4,137	48	90	4,095
Land improvements - non infrastructure	18,555	569	-	19,124
Rolling stock	273,632	15,903	14,179	275,356
Shop equipment	3,034	9	136	2,907
Scientific equipment	2,800	-	26	2,774
Infrastructure - roads	9,019,784	289,887	-	9,309,671
Infrastructure - bridges	<u>3,280,359</u>	<u>42,542</u>	<u>-</u>	<u>3,322,901</u>
Total capital assets being depreciated	<u>12,779,643</u>	<u>349,339</u>	<u>14,566</u>	<u>13,114,416</u>
Less accumulated depreciation:				
Buildings	61,475	4,820	110	66,185
Furniture and fixtures	3,631	192	90	3,733
Land improvements - non infrastructure	7,273	845	-	8,118
Rolling stock	214,485	14,162	8,218	220,429
Shop equipment	2,891	44	136	2,799
Scientific equipment	2,704	29	25	2,708
Infrastructure - roads	5,445,035	234,328	-	5,679,363
Infrastructure - bridges	<u>784,050</u>	<u>65,664</u>	<u>-</u>	<u>849,714</u>
Total accumulated depreciation	<u>6,521,544</u>	<u>320,084</u>	<u>8,579</u>	<u>6,833,049</u>
Total capital assets being depreciated, net	<u>6,258,099</u>	<u>29,255</u>	<u>5,987</u>	<u>6,281,367</u>
Governmental activities capital assets, net	<u>\$ 8,175,525</u>	<u>\$ 374,580</u>	<u>\$ 339,366</u>	<u>\$ 8,210,739</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 7: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$314,227 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$5,857 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Road Maintenance	
Rolling stock	\$ 14,162
Shop equipment	44
Scientific equipment	29
Total road maintenance	<u>14,235</u>
Other Road Operations	
Infrastructure - roads	234,328
Infrastructure - bridges	65,664
Total other road operations	<u>299,992</u>
 Total allocated depreciation expense	 <u>314,227</u>
Unallocated	
Buildings and improvements	4,820
Furniture and fixtures	192
Land improvements	845
Total unallocated	<u>5,857</u>
 Total depreciation expense	 <u>\$ 320,084</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 8-LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2017, 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	2010	4.00%	6/1/2023	\$ 35,135	\$ -	\$ -	\$ 35,135
Safe road bonds	2015	5.00%	6/1/2025	131,250	-	15,225	116,025
Total general obligation bonds				166,385	-	15,225	151,160
Bond premium				24,737	-	2,825	21,912
Total general obligation bonds payable net of premium				191,122	-	18,050	173,072
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2016A)	2016	5.00%	9/1/2022	-	53,380	-	53,380
				-	53,380	-	53,380
Total revenue notes payable				-	4,833	427	4,406
Note premium				-	-	-	-
Total general obligation notes payable net of premium				-	58,213	427	57,786
Claims and judgments				67,183	1,500	39,203	29,480
Compensated absences				17,015	240	751	16,504
Net pension liability				81,197	98,513	40,045	139,665
Total long-term obligations				\$ 356,517	\$ 158,466	\$ 98,476	\$ 416,507

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

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

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

Debt service expenditures included interest of \$8,480 for the year ended June 30, 2017. 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:

	2018	2019	2020	2021	2022	2023- 2025	Total
General obligation bonds payable from tax revenue:							
Safe road bonds	\$ 23,192	\$ 23,192	\$ 23,193	\$ 23,192	\$ 23,194	\$ 69,587	\$ 185,550
Less: interest	7,207	6,407	5,633	4,822	3,974	6,347	34,390
Total principal	15,985	16,785	17,560	18,370	19,220	63,240	151,160
Bond premium	2,825	2,825	2,825	2,825	2,825	7,787	21,912
Total principal and bond premium	<u>\$ 18,810</u>	<u>\$ 19,610</u>	<u>\$ 20,385</u>	<u>\$ 21,195</u>	<u>\$ 22,045</u>	<u>\$ 71,027</u>	<u>\$ 173,072</u>
Revenue notes payable from federal aid revenue							
Surface transportation special obligation notes	\$ 10,971	\$ 10,160	\$ 10,149	\$ 10,137	\$ 10,129	\$ 10,117	\$ 61,663
Less: interest	2,456	2,040	1,624	1,187	729	247	8,283
Total principal	8,515	8,120	8,525	8,950	9,400	9,870	53,380
Note premium	853	853	853	853	853	141	4,406
Total principal and note premium	<u>\$ 9,368</u>	<u>\$ 8,973</u>	<u>\$ 9,378</u>	<u>\$ 9,803</u>	<u>\$ 10,253</u>	<u>\$ 10,011</u>	<u>\$ 57,786</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

During the year ended June 30, 2017, the State was authorized by constitutional amendment to issue \$500,000 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 \$53,380 were issued during December 2016.

The State was authorized by constitutional amendment to issue general obligation bonds to fund highway and road construction projects known as Safe Road Bonds and subsequent General Obligation State Road Refunding Bonds. These bonds will be repaid from revenues of the State Road Fund.

The Division issued on behalf of the State of West Virginia, \$35,135 in General Obligation State Road Refunding Bonds, Series 2010A on July 22, 2010, resulting in proceeds of \$38,048. This bond issue refunds Series 1998 and Series 2001 General Obligation State Road Bonds (Safe 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 bonds that were refunded were called on June 1, 2011 and are no longer outstanding.

The Division issued on behalf of the State of West Virginia, \$133,710 in General Obligation Refunding Bonds, Series 2015A on April 28, 2015, resulting in proceeds of \$159,908. This series refunds Series 2005A General Obligation State Road Bonds with cumulative outstanding principal of \$159,300, and will result in net present value savings of \$25,918 over the life of the bonds. The bonds that were refunded were called on June 1, 2015 and are no longer outstanding.

Long term obligations for compensated absences, claims payable, net pension liability and general obligation bonds are as follows:

	Compensated Absences	Claims and Judgments	Net Pension Liability	General Obligation Bonds and Revenue Notes and Premium	Total
Current liabilities	\$ 12,740	\$ 1,500	\$ -	\$ 28,178	\$ 42,418
Long-term liabilities	3,764	27,980	139,665	202,680	374,089
Totals	<u>\$ 16,504</u>	<u>\$ 29,480</u>	<u>\$ 139,665</u>	<u>\$ 230,858</u>	<u>\$ 416,507</u>

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

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Estimated claims liability, July 1	\$ 67,183	\$ 78,106	\$ 21,812
Additions for claims incurred during the year	1,500	983	606
Changes in estimates for claims of prior periods	(23,173)	(11,300)	56,300
Payments on claims	<u>(16,030)</u>	<u>(606)</u>	<u>(612)</u>
Estimated claims liability, June 30	<u>\$ 29,480</u>	<u>\$ 67,183</u>	<u>\$ 78,106</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

At June 30, 2017, approximately \$27,980 of tort claims and \$1,500 in environmental claims were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$29,480 recorded in the government-wide Statement of Net Position, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$1,500. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Upon retirement, an employee may apply unused sick leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or apply unused sick leave or annual leave or both to obtain a greater benefit under the West Virginia Public Employees Retirement System.

NOTE 9: RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

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

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 which is owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under the operating leases, which expire June 30, 2018 for rental payments of approximately \$2.0 million annually. Management expects the leases to be renewed upon expiration.
- The Division's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2017 the Division incurred payroll related expenditures of approximately \$29,817 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$24,853 in employer matching contributions to the State Public Employees Retirement System.

NOTE 10: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$849,296 at June 30, 2017.

The Division participates in several federal programs which are subject to audit by the federal awarding agency. Any disallowed claims, including amounts already collected by the Division, may constitute a liability to the federal awarding agency of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal awarding agency cannot be determined at this time. The Division expects such amounts, if any, to be immaterial to the financial position of the Division. The Division records these disallowed costs in the period the audit is finalized.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

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

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Division. At June 30, 2017, there were approximately 322 open cases. These cases involve the acquisitions of properties by the Division for right of way purposes. The Division has paid the applicable courts on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Division.

NOTE 11: RETIREMENT PLAN

*Plan Description*

The Division contributes to the Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS covers substantially all employees of the State and its component units, as well as employees of participating non-state governmental entities who are not participants of another state or municipal system. Benefits under PERS include retirement, death and disability benefits, and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at [www.wvretirement.com](http://www.wvretirement.com).

*Benefits Provided*

Benefits are provided through PERS using a two-tiered system. Effective July 1, 2015, PERS implemented the second tier, Tier II. Employees hired, for the first time, on or after July 1, 2015 are considered Tier II members. Tier I and Tier II members are subject to different regulations.

Tier I: Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80 years or greater, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary multiplied by years of service. Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 11: RETIREMENT PLAN (Continued)

Tier II: Employees who retire at or after age 62 with ten or more years of credited service are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary multiplied by years of service. Final average salary is the average of the highest annual compensation received by an employee during any period of five consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer. Terminated members with at least ten years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 64.

*Contributions*

While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 12.0%, 13.5%, and 14.0% for the years ended June 30, 2017, 2016, and 2015, respectively. Effective July 1, 2017, a decrease in the contribution rate of 1.0%, will decrease the Division's contribution rate to 11.0%. The employee contribution rate is 4.5% and 6.0% for Tier I and Tier II employees, respectively.

During the years ended June 30, 2017, 2016, and 2015, the Division's contributions to PERS required and made were approximately \$24,853, \$28,273, and \$27,693 respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2017, the Division reported a liability of \$139,665 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. The Division's proportion of the net pension liability was based on the Division's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2016. At June 30, 2016, the Division's proportion was 15.20%, which was an increase of 0.66% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Division recognized pension expense of \$23,362. At June 30, 2017, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 43,888	\$ -
Deferred difference in assumptions	-	6,805
Changes in proportion and differences between Division contributions and proportionate share of contributions	3,469	1,161
Division contributions made subsequent to the measurement date of June 30, 2016	24,853	-
Differences between expected and actual experience	11,647	-
Total	<u>\$ 83,857</u>	<u>\$ 7,966</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 11: RETIREMENT PLAN (Continued)

Deferred outflows of resources related to pensions of \$24,853 resulting from Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2018	\$	8,054
2019		8,900
2020		20,656
2021		13,428

*Actuarial Assumptions and Methods*

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0%
Salary increases	3.0 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on 110% of RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant, Scale AA for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

*Long-term Expected Rates of Return*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Fixed Income	7.5%	2.7%
High Yield Fixed Income	7.5%	5.5%
Domestic Equity	27.5%	7.0%
International Equity	27.5%	7.7%
Real Estate	10.0%	5.6%
Private Equity	10.0%	9.4%
Hedge Funds	10.0%	4.7%
Total	<u>100.0%</u>	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
 DIVISION OF HIGHWAYS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2017  
 (amounts expressed in thousands)

NOTE 11: RETIREMENT PLAN (Continued)

*Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

*Sensitivity of the Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Division's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
The Division's proportionate share of the net pension liability (asset)	<u>\$ 252,816</u>	<u>\$ 139,665</u>	<u>\$ 43,570</u>

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report available at the Consolidated Public Retirement Board's website at [www.wvretirement.com](http://www.wvretirement.com).

NOTE 12: OTHER-POST EMPLOYMENT BENEFITS

The Division participates in the West Virginia Other Postemployment Benefit Plan (OPEB) of the West Virginia Retiree Health Benefit Trust Fund (RHBTF), a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to West Virginia Public Employees Insurance Agency, 601 57<sup>th</sup> Street, Charleston, WV 25304 or by calling 1-888-680-7342.

The Code requires the RHBTF to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017  
(amounts expressed in thousands)

NOTE 12: OTHER-POST EMPLOYMENT BENEFITS (Continued)

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The Division's ARC was \$13,671, \$18,734, and \$17,698 and the Division has paid premiums of \$9,519, \$11,364, and \$10,948 which represent 69.6%, 60.7%, and 61.8% of the ARC, respectively, for the years ending June 30, 2017, 2016, and 2015. At June 30, 2017, the liability related to OPEB costs was \$152,729.

NOTE 13: RISK MANAGEMENT

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

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 10, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 8.

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

American Zurich Insurance Company provides workers compensation coverage to all West Virginia state agencies. Payments for coverage are made directly to the West Virginia State Insurance Commission who in turn purchases the workers' compensation coverage on behalf of all West Virginia state agencies. Nearly every employer in the state who has a payroll must have coverage.

In exchange for premiums, the Division transfers its risk of loss related to employee injuries to American Zurich Insurance Company.

NOTE 14: SUBSEQUENT EVENTS

The Division of Highways issued \$219,985 of Surface Transportation Improvement Special Obligation Notes on October 26, 2017. The debt service payments will be funded through federal aid revenue. The funds generated from this sale will be used to fund bridge replacement and interstate rehabilitation projects.

The Division of Highways redeemed The County Commission of Monongalia County, Special District Excise Tax Revenue Bonds Series B on October 12, 2017. The Division agreed to accept \$23,392 as payment in full.

The State of West Virginia held a special election on October 7, 2017. West Virginia voters approved the sale of \$1.6 billion in general obligation bonds for transportation infrastructure construction. The State Legislature raised the wholesale gas tax, vehicle privilege tax and motor vehicle registration fees to fund the re-payment of the general obligation bonds. The bonds will be sold in phases over four years starting in 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
June 30, 2017**

**Public Employees Retirement System**

Last 10 Fiscal Years\*

(In Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Government's proportion of the net pension liability (asset) (percentage)	15.20%	14.54%	14.48%							
Government's proportionate share of the net pension liability (asset)	\$ 139,665	\$ 81,197	\$ 53,405							
Government's covered-employee payroll	\$ 209,422	\$ 198,305	\$ 193,990							
Government's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.69%	40.94%	27.53%							
Plan fiduciary net position as a percentage of the total pension liability	86.11%	91.29%	93.98%							

\* - The amounts presented for each fiscal year were determined as of June 30th of the previous year. (Measure date)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS  
SCHEDULE OF CONTRIBUTIONS  
June 30, 2017**

**Public Employees Retirement System  
Last 10 Fiscal Years  
(In Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 24,853	\$ 28,272	\$ 27,693	\$ 28,128	\$ 27,797					
Contributions in relation to the contractually required contribution	<u>(24,853)</u>	<u>(28,272)</u>	<u>(27,693)</u>	<u>(28,128)</u>	<u>(27,797)</u>					
Contribution deficiency (excess)	<u>\$ -</u>									
Government's covered-employee payroll	\$ 207,108	\$ 209,422	\$ 198,305	\$ 193,990	\$ 198,552					
Contributions as a percentage of covered-employee payroll	12.00%	13.50%	14.00%	14.50%	14.00%					

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Amounts reported during the year ended June 30, 2017 reflect an assumed inflation rate of 3.0% rather than an assumed inflation rate of 1.9% that was used in the prior year.

There were no other factors that affected trends in the amounts reported. If necessary, additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2016.



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

Joint Committee on Government and Finance  
West Virginia Legislature  
Charleston, West Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated November 6, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and responses as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

#### **Compliance and Other Matters**

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

**West Virginia Department of Transportation, Division of Highways Response to Findings**

The Division's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. The Division's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia  
November 6, 2017

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
JUNE 30, 2017

**2017-001 CAPITAL ASSETS**

- Criteria:** Management of the Division is responsible for establishing and maintaining effective supervision and review over financial reporting to ensure financial statements are prepared in conformity with generally accepted accounting principles (GAAP). GAAP requires that all long-lived assets be recorded as capital assets in accordance with the Division's capitalization policy.
- Condition:** The Division was unable to provide a complete record of all land that they own. Additionally, while completing inventory in the current year, the Division found several pieces of rolling equipment that had been purchased in previous years and had never been recorded as capital assets. Since the purchase price for these assets was unknown, these assets were recorded on the capital asset listing with no dollar value.
- Cause:** The Division's procedures relating to recording and reconciling capital assets were not effective.
- Effect:** The Division has capital assets that have not been identified and recorded. As a result, the Division's financial statements could be misstated.
- Recommendation:** We recommend that the Division evaluate the supervisory review procedures over recording and reconciling capital assets to ensure that all capital assets are accurately recorded in accordance with GAAP.
- Views of Responsible Offices:** *We agree with the findings and will take the necessary corrective actions as noted in the corrective action plan attached.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
JUNE 30, 2017

**2017-002 RECONCILIATION**

<b>Criteria:</b>	Management of the Division is responsible for establishing and maintaining an effective system of internal control over financial reporting. The Division is currently accounting for employee time in two systems. Kronos is used for traditional payroll and time tracking. Remote Entry Management Information System (REMIS) is used for recording all job costs, including payroll, and ultimately for supporting the billing of all project costs incurred by the Division to appropriate revenue sources.
<b>Condition:</b>	As noted in the prior year, Kronos time and billing records are not reconciled to the production REMIS system to ensure the completeness and accuracy of information between the two systems.
<b>Cause:</b>	The Division has not established a policy or procedure to reconcile the two systems for payroll related data through the year ended June 30, 2017.
<b>Effect:</b>	Differences between the two systems could exist and not be timely detected and corrected leading to misstatements in the financial statements related to the completeness and accuracy of financial information or in the completeness and accuracy of billing project costs related to payroll.
<b>Recommendation:</b>	We recommend that a regular reconciliation between the two systems be performed and then timely reviewed and approved to ensure the completeness and accuracy of the data until migration of the REMIS system to Our Advanced Solution with Integrated Systems (wvOASIS) is completed.
<b>Views of Responsible Offices:</b>	<i>We agree with the findings and will take the necessary corrective actions as noted in the corrective action plan attached.</i>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
JUNE 30, 2017

**2017-003 — INFORMATION SYSTEM GOVERNANCE**

- Criteria:** Management is responsible for establishing and maintaining an effective system of internal control over financial reporting, including controls over critical information technology systems which support the financial reporting function. Fundamental concepts of internal control include the segregation of duties, timely supervisory review and approval, and active management of third party applications. Segregation of duties involves assigning responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets to different individuals, thus reducing the risk of fraud and errors occurring and not being detected. Supervisory review and approval allows for the timely evaluation of risks within the information systems and correction of errors when discovered. A key component to the utilization of third party service organizations is gaining an understanding of the third party application which includes obtaining a System Organization Controls Examination (SOC) report, reviewing the report, and implementation of complementary user entity controls.
- Condition:** As noted partially in the prior year, several information technology applications directly support the financial statements of the Division. The following internal control issues were identified:
- Programmers in the Divisions Information Services Department (ISD) have access to production programs in the REMIS system. This access grants the Divisions' ISD personnel the same rights as a business user of the application, allowing access to data and transactional authority.
  - Management did not maintain documentation of periodic user access reviews for the REMIS, Project Tracking System (PTS), wvOASIS, and Kronos applications.
  - Management does not perform a periodic, documented review of administrator access changes to the REMIS and PTS applications.
  - Terminated employees are not removed timely from the REMIS, PTS, wvOASIS, and Kronos applications.
  - Terminated employees are not communicated timely to the West Virginia Office of Technology (WVOT) to remove network access.
  - The WVOT did not provide to the Board a SOC report over information systems for which they oversee for the Division.
  - The Board does not have procedures in place to document their review and utilization of the wvOASIS and WVOT SOC reports. Additionally, complementary user entity controls are not in place at the Division.
- Cause:** Policies and procedures have not been adequately updated and information system controls have not been monitored by the Division.
- Effect:** Unauthorized access to critical information systems may occur and not be detected or resolved in a timely manner.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF HIGHWAYS

SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
JUNE 30, 2017

**2017-003 — INFORMATION SYSTEM GOVERNANCE (Continued)**

**Recommendation:** We recommend the following:

- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. If this access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.
- The Division should establish policies and procedures to create a documented periodic review of user account management. These policies and procedures should address network, division owned applications, and WV Enterprise Resource Planning (ERP) Board applications.
- The Division should implement a process to review system administrator activity for Division owned applications. Since manual reviews are typically inefficient and susceptible to human error the process should be automated to the fullest extent technically feasible.
- The Division should create and implement procedures to identify and communicate terminated employees to application administrators and third parties.
- SOC reports should be requested annually by management from third party service providers that are critical to the Division's financial reporting.
- The Division should document their annual review of SOC reports received and determine that the appropriate complementary user entity controls are in place. These controls are vital to achieving the control objectives and are the responsibility of the Division to design and implement.

**Views of  
Responsible  
Offices:**

*We agree with the findings and will take the necessary corrective actions as noted in the corrective action plan attached.*



**WEST VIRGINIA  
DEPARTMENT OF TRANSPORTATION  
1900 Kanawha Boulevard East • Building Five • Room 109  
Charleston, West Virginia 25305-0440 • (304) 558-0444**

Jim Justice  
Governor

Thomas J. Smith, P. E.  
Cabinet Secretary

November 6, 2017

## Corrective Action Plan

**West Virginia Legislative Joint Committee on Government and Finance**

West Virginia Division of Highways respectfully submits the following corrective action plan for the year ended June 30, 2017.

**Name and address of independent public accounting firm: Suttle & Stalnaker, PLLC, 1411 Virginia Street, East, Suite 100, Charleston, WV 25301**

**Audit Period: Year ended June 30, 2017**

The findings from the November 6, 2017 schedule of findings and responses are discussed below. The findings are numbered consistently with the number assigned in the schedule.

### **FINDINGS-FINANCIAL STATEMENT AUDIT**

#### **2017-001 CAPITAL ASSETS**

**Recommendation:**

We recommend that the Division evaluate the supervisory review procedures over recording and reconciling capital assets to ensure that all capital assets are accurately recorded in accordance with GAAP.

**Action taken:**

Management understands the importance and necessity of having a structured and timely review of records used in the preparation of the financial statements to ensure accuracy in financial reporting. The Division has records of all property it owns where structures are located. The Division acknowledges that it has only recently begun compiling information regarding "uneconomic remnants" it owns and has records regarding those properties back to 2007. The Division will continue to maintain those records going forward. The Financial Reporting Section has resumed doing a reconciliation of the rolling equipment purchases.

## 2017-002 RECONCILIATION

### Recommendation:

We recommend that a regular reconciliation between the two systems be performed and then timely reviewed and approved to ensure the completeness and accuracy of the data until migration of the REMIS system to Our Advanced Solution with Integrated Systems (wvOASIS) is completed.

### Action taken:

No single report in wvOASIS can be used to complete a reconciliation between Kronos, HRM and REMIS primarily due to the existing correction process in wvOASIS, differences in how overtime is calculated and the payment of overtime increment. Payroll corrections are made in Kronos, HRM and/or REMIS based on what type of correction is needed, where the error is made and when the error is found. As a result, hours and/or wages in the three systems differ. While the WV-HRP-PYRL-178 report can be ran in Business Intelligence for each pay period, the hours and/or wages will not match entries in either Kronos or REMIS if certain corrections are made in HRM. A correction for an hourly temporary upgrade in KRONOS is one of those instances. The example of the hourly temporary upgrade is used because an historical edit cannot be made in Kronos for an activity form entry so it must be entered directly in HRM. The Hours Detail genie in Kronos could be exported to Excel for each organization/unit to use for comparison, but the amounts shown on this report would not reflect any corrections that were required to be entered directly in HRM due to the type of correction being entered or the timing of when that correction was received. For example, corrections impacting an employee's pay by a significant amount that are received after payroll sign-off are usually entered directly in HRM so the employee receives the correct pay check on the expected pay date. Although Kronos will eventually be corrected (except for hourly temporary upgrades), the corrected entries would not show on the Hours Detail. Overtime rates are calculated by multiplying the employee's regular rate at the time the overtime is incurred by 1.5 in REMIS. In wvOASIS, this rate is a blended rate that varies weekly. The blended rate is based on the number of hours worked and includes overtime increment earned by the employee during that week, if applicable. In REMIS, any overtime increment due an employee was paid once a year on a supplemental pay, however, in wvOASIS overtime increment is paid each week. These factors would prevent the pay from matching between the two systems. Due to WVDOT's size, many of the reports available from wvOASIS are 3,000+ pages each pay period and as such, are not feasible for use in reconciliation.

## 2017-003 — INFORMATION SYSTEM GOVERNANCE

### Recommendation:

We recommend the following:

- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. If this access is necessary, mitigating controls such as monitoring of programmer access and activities within the production

application should be performed and documented.

- The Division should establish policies and procedures to create a documented periodic review of user account management. These policies and procedures should address network, division owned applications, and WV Enterprise Resource Planning (ERP) Board applications.
- The Division should implement a process to review system administrator activity for Division owned applications. Since manual reviews are typically inefficient and susceptible to human error the process should be automated to the fullest extent technically feasible.
- The Division should create and implement procedures to identify and communicate terminated employees to application administrators and third parties.
- SOC reports should be requested annually by management from third party service providers that are critical to the Division's financial reporting.
- The Division should document their annual review of SOC reports received and determine that the appropriate complementary user entity controls are in place. These controls are vital to achieving the control objectives and are the responsibility of the Division to design and implement.

**Action taken:**

Due to the limited number of Information Services Division employees and with the replacement of REMIS to the new statewide financial system wvOASIS it is difficult to segregate duties. It was mandated by the wvOASIS Board which consist of the Governor, Treasurer, and the Auditor that there will be no changes to systems being replaced by wvOASIS. There has not been a change to REMIS except, table changes since 2011. After the DOT implementation of wvOASIS the business process policy and procedures will be addressed to support system modifications to wvOASIS. The DOT is currently working on procedures to remove access for terminated and transferred employees within the department using wvOASIS, network access and REMIS. The SOC Report was requested from the Office of Technology and wvOASIS, neither office provided the information.

If the West Virginia Legislative Joint Committee on Government and Finance has questions regarding this plan, please call Carla Rotsch at 304-558-9240.

Sincerely,



**Carla Rotsch  
Deputy Secretary/Business Manager**