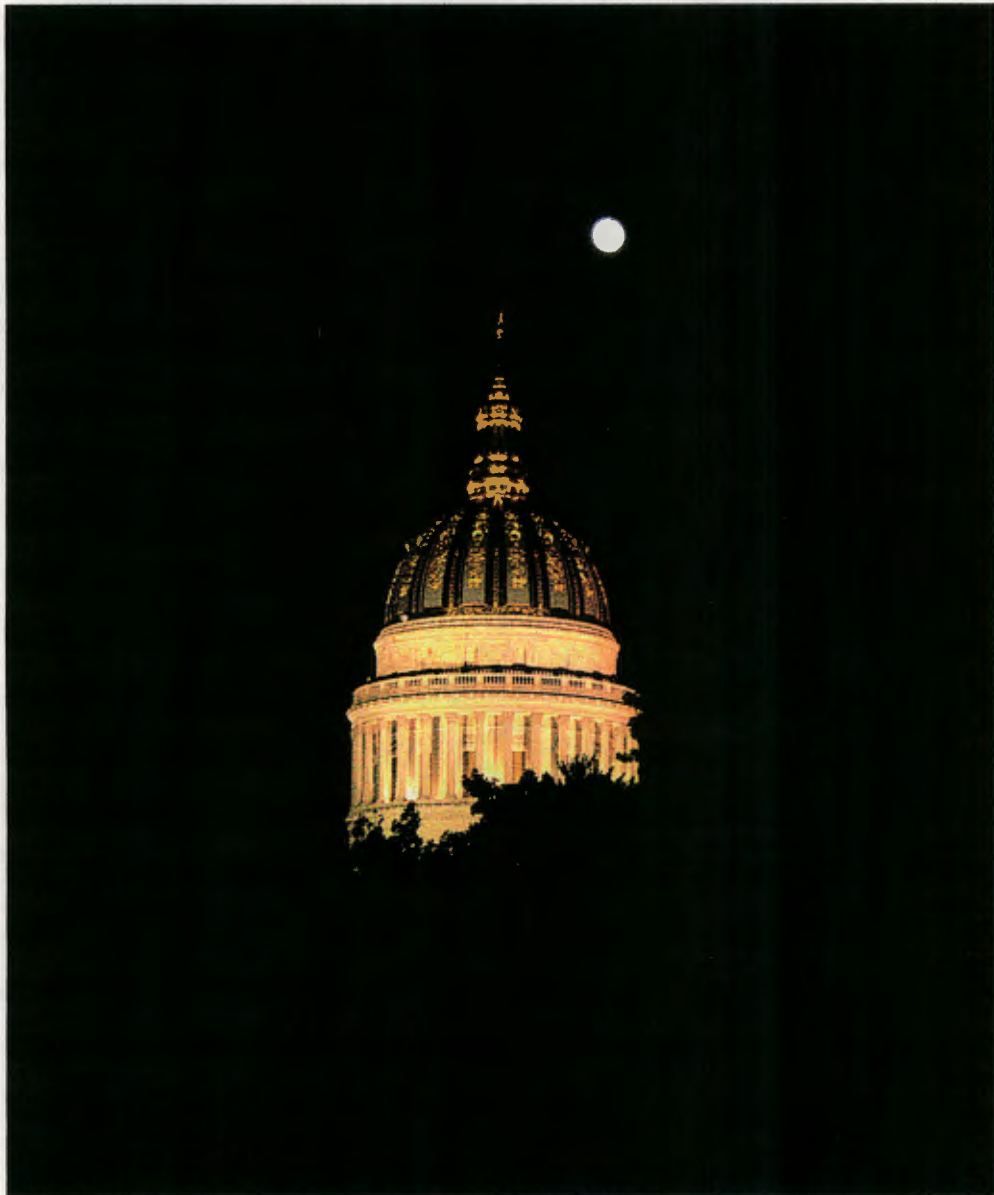


WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011**

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011**

PREPARED BY
FINANCE AND ADMINISTRATION DIVISION

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BUILDING 5, ROOM 137
CHARLESTON, WEST VIRGINIA 25305

and

Angie Cottrill
Finance & Administration Division

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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2011

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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2011

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**WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION**

DIVISION OF HIGHWAYS



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

Division of Highways

**1900 Kanawha Boulevard East • Building Five • Room 110
Charleston, West Virginia 25305-0430 • (304) 558-3505**

December 30, 2011

The Honorable Earl Ray Tomblin, Governor
The Honorable Members of the West Virginia Legislature
The Citizens of the State of West Virginia

We are pleased to submit the Comprehensive Annual Financial Report of the West Virginia Department of Transportation, Division of Highways (the Division) for the fiscal year ended June 30, 2011. The purpose of the report is to provide the Governor, Legislature, Citizens and other interested parties with reliable financial information about the Division.

Management assumes all responsibility for both the accuracy of the information and the completeness and fairness of presentation, including all disclosures of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Since the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. All disclosures necessary to enable the reader to gain an understanding of the Division's financial activities have been included.

State statute requires that an annual audit of the Division is performed. The accounting firm of Perry & Associates was engaged to perform the audit for the year ended June 30, 2011. Their report is included in the financial section of this report. The West Virginia Department of Transportation is included in the West Virginia Single Audit in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The West Virginia Single Audit for the year ended June 30, 2011 is available upon request.

Management's discussion and analysis (MD&A) immediately follows the independent accountant's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE DIVISION OF HIGHWAYS

The Division is an operating division of the state government of West Virginia (the State). The State Road Fund (the Division's general fund) is considered a special revenue fund of the State and represents separate funds of the State that are not a part of the State's General Fund. Effective July 1, 1989, the Department of Highways became the Division of Highways when the Department of Transportation was established as a result of legislation enacted by the West

Virginia Legislature. It had been the Department of Highways since 1969 when the name was changed from the State Road Commission, which was established in 1917.

With roughly 39,000 miles of public highway mileage, West Virginia is one of only four states (Delaware, North Carolina and Virginia are the others) in which there is no county and/or township ownership of highways. As a result, the Division has statutory authority for the construction, improvement and maintenance of nearly all public highway miles (approximately 36,000 or 92%) in the state, the highest percentage in the nation. Furthermore, despite West Virginia's relatively small size, the Division is responsible for the sixth-largest state-maintained highway network in the nation.

RELEVANT FINANCIAL POLICIES

The Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, and sales (privilege) tax on consumer purchases of motor vehicles and reimbursement from 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 Division's expenditures are subject to the legislative budget process of the State of West Virginia. The budget is legally enacted through passage of a legislative bill and approval of the Governor. The Division's internal accounting system is used to accumulate and segregate expenditures and compare them against legislative appropriations. A computerized accounting system with daily input of expenditures from all of the Division's facilities throughout the state is used to provide management with current information. This expenditure data, in conjunction with actual revenue collection data, is used by the Division's management to track current cash status and to forecast future cash requirements. These forecasts are used to adjust planned expenditures to a level appropriate to the forecasted cash availability.

Short-term goals and policies for the Division reside in the 2012-2017 Statewide Transportation Improvement Program (STIP). The STIP is organized so that all projects that are programmed fall within one of seven core programs. The goal is to better manage assets to meet the Program's needs and less emphasis on the type of funding used. The STIP includes a wide variety of projects including roadway, bridge, bicycle, pedestrian, safety and public transportation (transit) projects. Projects are subject to many considerations and actions from conception to completion that may impede or accelerate their progress. These considerations may include policy decisions; changes in design requirements; conflicts with other scheduled activities; unforeseen circumstances such as funding reductions; shortage of manpower; and inflation of project costs. Project cost estimates are based on the best available engineering estimates at the time the STIP is developed. When a project is adversely affected by any of the abovementioned factors, the projected fiscal year dates and/or costs will be adjusted accordingly.

Long-term goals and policies for the Division currently reside in the Multi-Modal Statewide Transportation Plan for 2010 – 2034, which discusses in broad terms the long-range goals and objectives. This plan not only meets new federal requirements, but also makes the plan more project specific by incorporating a tool for calculating a preliminary benefit/cost ratio on larger projects. This tool, in conjunction with other data, can be used to help prioritize larger projects which must compete for scarce resources. It also allows both existing unfunded projects and future proposals to be monitored and adjusted to meet the needs of the citizens of West Virginia.

ECONOMIC CONDITIONS AND OUTLOOK

The seasonally adjusted unemployment rate in West Virginia was 8.2% for October 2011, as compared to the national rate of 9.0%. During the period of October 2010 to October 2011 nonfarm payroll employment increased by 4,800 jobs. According to the *West Virginia Economic Outlook 2012*, published by the Bureau of Business and Economic Research at the College of Business and Economics, West Virginia University, “The West Virginia economy has begun to recover from the Great Recession. The state added 11,600 jobs from the fourth quarter of 2009 to the second quarter of 2011. That means the state has now replaced roughly one half of the 23,000 jobs lost during the downturn. In addition, job growth in West Virginia during the recovery so far averaged 1.0 percent at an annual rate, slightly faster than the national growth rate of 0.8 percent. The forecast calls for job growth in West Virginia during the next five years, assuming the national economy avoids recession. The risk of a national recession has risen in recent months. This matters for West Virginia because state economic growth depends on the growth of our trading partners, whether they are located across the nation or around the world. Thus, if the national economy falls into recession then that significantly raises the odds of a state downturn as well.”

LONG-TERM FINANCIAL PLANNING

The schedule that follows presents combined summary revenue and expenditure information for the State Road (General) Fund and the Capital Projects Fund for the year ended June 30, 2010. All data is presented in thousands of dollars.

	<u>Amount</u>	<u>Percent of Total</u>	<u>Change from Prior Year</u>	
			<u>Amount</u>	<u>Percent</u>
Motor fuel excise tax	406,347	32%	12,790	3%
Automobile privilege taxes	168,602	13%	21,136	14%
Motor vehicle registration and licenses	91,475	7%	3,875	4%
Special fees and permits	7,083	1%	1,290	22%
Federal aid	534,602	43%	2,581	0%
Investments and interest income	517	0%	974	-213%
Intergovernmental	14,171	1%	(27,147)	-66%
Miscellaneous	34,945	3%	6,933	25%
Total revenues	<u>\$1,257,742</u>	<u>100%</u>	<u>\$22,432</u>	<u>2%</u>
Road construction and other road operations	685,624	51%	684	0%
Road maintenance	425,711	31%	15,454	4%
Support and administrative operations	164,953	12%	36,215	28%
Debt service	76,251	6%	(1,322)	-2%
Total expenditures	<u>\$1,352,539</u>	<u>100%</u>	<u>\$51,031</u>	<u>3.9%</u>

Overall, State tax and fee revenues grew slightly in Fiscal Year 2011, but revenues are projected to remain stagnant through Fiscal Year 2017. Federal Aid revenues remained constant due to the continuation of ARRA (American Recovery and Reinvestment Act of 2009) stimulus funds. Special fees and permits collections increased primarily due to a spike in special permit issuances. Investments and interest income rebounded thanks to no arbitrage rebates during FY 2011. Intergovernmental revenues experienced a significant decrease due to the December 1, 2009 termination of the Motor Fuel Excise Tax Shortfall Reserve Fund which accounted for \$27.3 million of revenue transfers to the State Road Fund during FY 2010. Unless the State Road Fund is able to substantially increase its revenues, the long-term forecast is for reduced construction and maintenance, accompanied by a decline in the condition of the state's highway infrastructure and a negative impact on the overall economic condition of the state.

Road maintenance expenditures increased due to renovation projects focused on pavement preservation and rehabilitation. Road maintenance repairs appear to have a longer useful life reducing the need to continually repair the same areas. The increase in Support and Administrative Operations expenditures was mainly attributable to increased employee benefit costs plus an unusually large physical inventory adjustment.

At June 30, 2011 the outstanding principal balance of long-term general obligation bonds was \$305,460,000. These bonds were issued between 1998 and 2005 including \$550,000,000 issued under the Safe Road Amendment of 1996, and are scheduled to be retired through June 1, 2025. Total debt service payments are expected to remain around \$50 million annually for fiscal year 2012.

At June 30, 2011 the outstanding principal balance of the Grant Anticipation Revenue Vehicle (GARVEE) notes was \$122,795,000. The notes were issued in 2006, 2007 and 2009 as a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. Under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year.

MAJOR INITIATIVES

Through the efforts of the West Virginia Congressional delegation, the Division has obtained extraordinary federal funding to construct a substantial portion of the Appalachian Development Highway System and other highways within the State. Environmental and location work has been nearly completed on Appalachian Development Highway Corridor H (US 48) which is projected to run from Interstate 79 near Weston, West Virginia to Wardensville, in Hardy County, West Virginia. Approximately 66 miles of the 133 miles of this highway within the State have been completed and opened to traffic. Several additional miles are currently under construction, and are scheduled to be opened to traffic over the next 2 to 3 years.

Due to several factors, including a high concentration of truck traffic, safety concerns, and its regional significance, the Division has given high priority to improvement of US 35 in Putnam and Mason Counties. The Division used the previously described GARVEE notes to accelerate construction of significant portions of that highway. As a result, October 21, 2010 marked the official opening of 8 miles of US Route 35 in Mason County between Henderson and

CR 40 (Chief Cornstalk Road). The Division plans to resurface, widen and add paved shoulders to the remaining 14 mile, 2-lane section of US 35 in Mason and Putnam Counties. Also, West Virginia's 3.85 mile segment of the Mon/Fayette Expressway which runs from Interstate 68 at Cheat Lake to the Pennsylvania state line was completed and opened in July 2011. Several corridors have been studied for route locations, including WV 10 (Logan to Man), the King Coal Highway, and the Coal Fields Expressway. Construction of Route 9 improvements in the eastern panhandle of the State will continue beyond 2012. Additional review is being done in conjunction with Route 705 in the Morgantown area.

In conjunction with improvement of the road system through construction and upgrading, the Division has emphasized roadway and bridge preservation and renovation. Rugged mountainous terrain and numerous streams and rivers characterize the topography of the State. Consequently, the State's road system includes more than 6,800 bridges, of which over one third are either functionally or structurally obsolete. The Division's bridge program, enhanced by a state-funded program that started in 1988 for small bridges, has been highly successful in correcting these problems. Since July 1, 1989 some 4,285 bridges have been repaired or replaced at a cost of more than \$2.8 billion. Other accomplishments during the fiscal year ended June 30, 2011 include the resurfacing of approximately 997 miles of roadway at a cost of \$199 million.

During the fiscal year ended June 30, 2011, the Division continued to improve the operating efficiency of the heavy equipment road maintenance fleet through the procurement of approximately \$16 million in new replacement units. The Division is continuing to give priority to replacing equipment involved in its core maintenance functions.

West Virginia emphasizes the safety of its Citizens by promoting seat belt use. The Division further emphasizes safety through its railroad grade crossing, high hazard location, and guardrail installation programs. The Division also adheres to national standards for traffic control in road construction and road maintenance work areas to maximize safety for motorists and its employees.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Division of Highways for its comprehensive annual financial report for the past nineteen consecutive fiscal years (1992-2010). The Certificate of Achievement is a prestigious international award recognizing conformance with the highest standards for preparation of state and local government financial reports. The Division was the second West Virginia state agency to be awarded the GFOA Certificate and is one of only nine State of West Virginia agencies to receive the Certificate for the year ended June 30, 2010.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. The CAFR must satisfy accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Division believes its FY2011 CAFR continues to conform to the Certificate of Achievement program requirements, and the Division is submitting it to the GFOA for review under this program.

The preparation of the CAFR on a timely basis was made possible by the personnel of the Transportation Finance & Administration and Transportation Budget Divisions. I express my sincere appreciation for the contributions made by these individuals in the preparation of this report, particularly the Financial Reporting Section of the Finance & Administration Division, which has administrative responsibility for this function.

Sincerely,



Keith E. Chapman
Chief Financial Officer/Business Manager
West Virginia Division of Highways

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Division of Highways

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

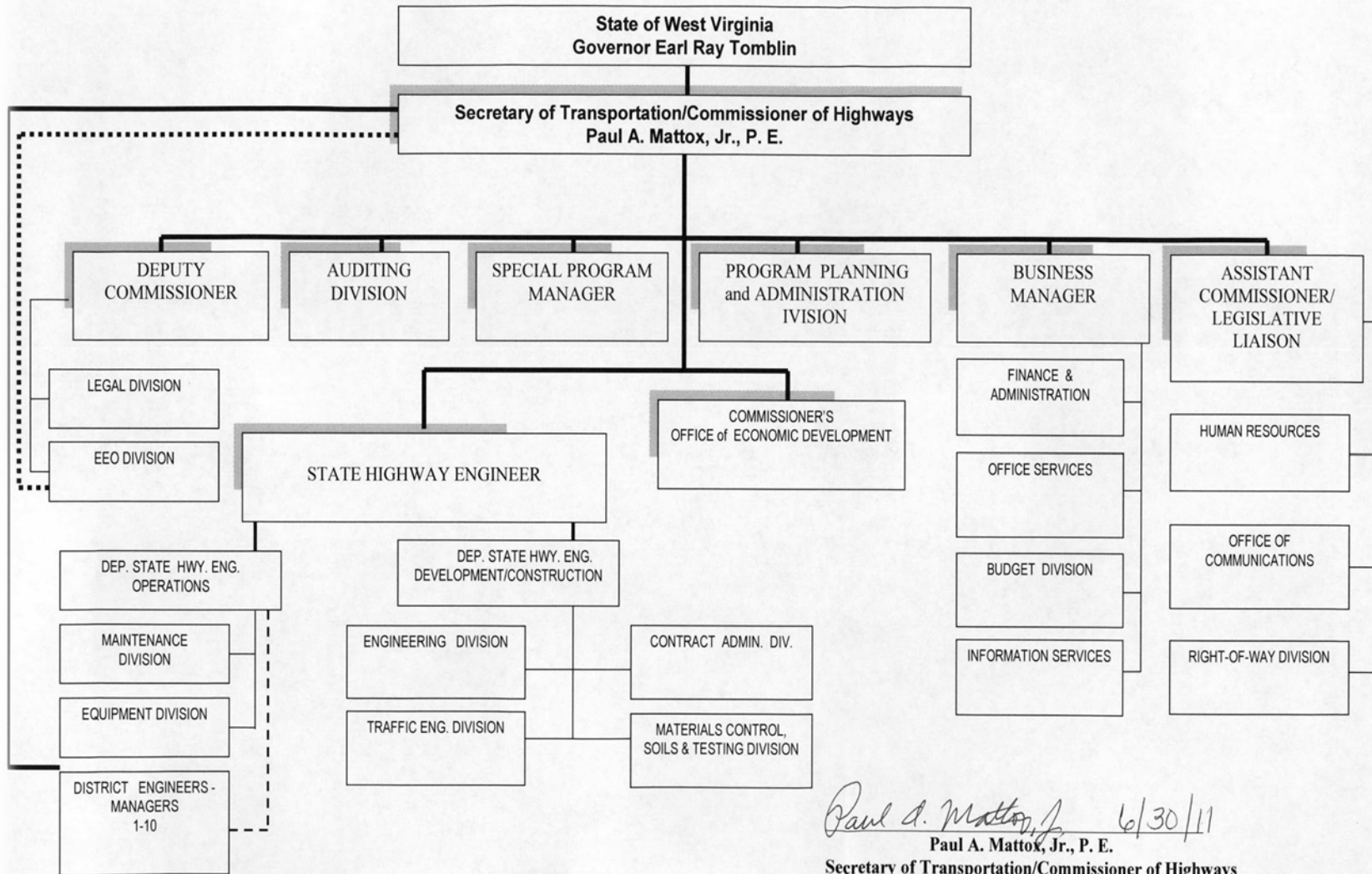
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

WEST VIRGINIA DIVISION OF HIGHWAYS



Paul A. Mattox, Jr. 6/30/11
Paul A. Mattox, Jr., P. E.
 Secretary of Transportation/Commissioner of Highways

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 LIST OF PRINCIPAL OFFICIALS
 June 30, 2011

Paul A. Mattox, Jr.	Cabinet Secretary of Transportaion
Paul A. Mattox, Jr.	Commissioner of Highways
Howard Mullens	Assistant Commissioner
Harry Bergstrom	Deputy Commissioner
Marvin Murphy	State Highway Engineer
Keith Chapman	Business Manager
Steve Cole	Deputy State Highway Engineer-Operations
Darrell Allen	Deputy State Highway Engineer-Development
Darrell Allen	Deputy State Highway Engineer-Construction
David Cramer	Director, Economic Development
Jimmy Wriston	Special Program Manager
Kathy Holtsclaw	Executive Assistant
Ernie Larzo	Executive Assistant
Chuck Runyon	Executive Assistant
Randy Wade	Director, Auditing Division
Eric Crawford	Director, Budget Division
Todd Rumbaugh	Director, Contract Administration Division
Greg Bailey	Director, Engineering Division
Drema Smith	Director, Equal Employment Opportunity Division
Robert Andrew	Director, Equipment Division
Jim Hash	Acting Director, Finance & Administration Division
Jeff Black	Director, Human Resources Division
Kim Asseff	Acting Director, Information Services Division
Anthony Halkias	Director, Legal Division
Kyle Stollings	Director, Maintenance Division
Aaron Gillispie	Director, Materials Control, Soil & Testing Division
Brent Walker	Director, Office of Communications
Elaine Pannell	Director, Office Services Division
Rob Pennington	Director, Program Planning & Administration Division
David Neil	Acting Director, Right of Way Division
Cindy Cramer	Director, Traffic Engineering Division
Wilson Braley	Regional Operations Engineer
Eugene Tuckwiller	Regional Operations Engineer
Gary Clayton	Regional Operations Engineer

DISTRICT ENGINEERS/MANAGERS

District 1	John McBrayer	Charleston
District 2	Scott Eplin (Acting)	Huntington
District 3	James "Rusty" Roten	Parkersburg
District 4	Greg Phillips	Clarksburg
District 5	Lee Thorne	Burlington
District 6	Daniel Sikora (Acting)	Moundsville
District 7	Ron Hooton	Weston
District 8	Michael Moran	Elkins
District 9	Donald Beals	Lewisburg
District 10	Tom Camden	Princeton

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WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

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(740) 695-5775 Fax

INDEPENDENT ACCOUNTANTS' REPORT

November 10, 2011

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the West Virginia Department of Transportation, Division of Highways, a component unit of the State of West Virginia and the West Virginia Department of Transportation (the Division) as of and for the year ended June 30, 2011, which collectively comprise the Division's financial statements as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road (General) Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The introductory section and statistical section information provide additional analysis and are not a required part of the basic financial statements. We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Respectfully submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.

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, 2011. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Division's total combined net assets are \$7.75 billion as of the close of fiscal year 2011.

Changes in Net Assets - During the year the Divisions' Net Assets increased \$226 million or 3.00%. This percentage of increase is a slight increase from the prior year, when Net Assets increased \$176 million or 2.39%.

Revenues and Expenses - Total revenues increased by \$24 million or 1.95%. Total expenses decreased \$26 million or 2.46%. There were no significant changes in the programs carried out by the Division during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2011, the Division's governmental funds reported combined total fund equity of \$143 million, a decrease of \$92 million in comparison with the prior year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$34 million during the current fiscal year. There was a bond refinancing in July 2010. The Division's total outstanding special obligation notes, net of note premium, decreased by \$22 million decreasing total long term debt by 12.39% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Statements

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Division's net assets as of June 30, 2011 and 2010 (amounts in thousands).

The largest component (98.72%) of the Division's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The Division uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion is classified as either restricted or unrestricted net assets. The unrestricted net assets may be used at the Division's discretion. The restricted net assets have constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

Net Assets as of June 30

	2011	2010	% Change
Total current assets	\$ 311,710	\$ 365,756	-14.78%
Capital assets, net of accumulated depreciation	8,111,197	7,852,616	3.29%
Other non-current assets	2,331	2,378	-1.98%
Total assets	8,425,238	8,220,750	2.49%
Total current liabilities	245,763	160,055	53.55%
Long term liabilities	425,875	532,935	-20.09%
Total liabilities	671,638	692,990	-3.08%
Invested in capital assets, net of related debt	7,654,175	7,358,147	4.02%
Restricted	14,584	17,035	-14.39%
Unrestricted	84,841	152,578	-44.39%
Total net assets	\$ 7,753,600	\$ 7,527,760	3.00%

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

Condensed Statement of Activities

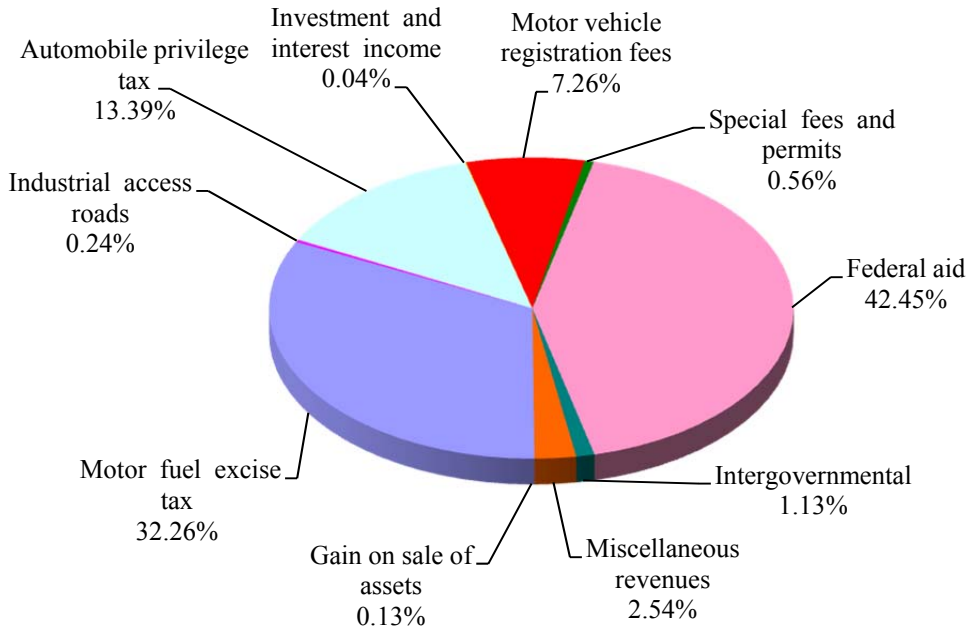
The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Revenues			
Taxes	\$ 574,949	\$ 541,023	6.27%
Investment and interest income	517	(457)	213.13%
Intergovernmental	14,171	41,318	-65.70%
Miscellaneous revenues	31,945	25,012	27.72%
Gain on sale of assets	1,673	-	0.00%
Total general revenues	<u>623,255</u>	<u>606,896</u>	2.70%
Capital grants and contributions	537,602	535,020	0.48%
Charges for service	<u>98,558</u>	<u>93,393</u>	5.53%
Total program revenues	<u>636,160</u>	<u>628,413</u>	1.23%
Total revenues	<u>1,259,415</u>	<u>1,235,309</u>	1.95%
Expenses			
Road maintenance	433,905	411,816	5.36%
Other road operations	448,650	522,766	-14.18%
General and administration	126,704	99,118	27.83%
Interest on long-term debt	20,041	22,514	-10.98%
Unallocated depreciation	<u>4,275</u>	<u>3,442</u>	24.20%
Total expenses	<u>1,033,575</u>	<u>1,059,656</u>	-2.46%
Change in net assets	225,840	175,653	28.57%
Net assets, beginning	<u>7,527,760</u>	<u>7,352,107</u>	2.39%
Net assets, ending	<u>\$ 7,753,600</u>	<u>\$ 7,527,760</u>	3.00%

Over time, increases and decreases in net assets measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$225.8 million or 3.00% percent.

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

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



Total revenues increased by approximately \$24 million. Total tax revenues increased by approximately \$34 million. Federal aid revenue increased by approximately \$3 million or .49%. The following summarizes revenues for the years ended June 30, 2011 and June 30, 2010 (amounts in thousands):

	2011	2010	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 406,347	\$ 393,557	\$ 12,790	3.25%
Industrial access roads	3,000	3,000	-	0.00%
Automobile privilege tax	168,602	147,466	21,136	14.33%
Motor vehicle registration fees	91,475	87,600	3,875	4.42%
Special fees and permits	7,083	5,793	1,290	22.27%
Federal aid	534,602	532,020	2,582	0.49%
Investment and interest income	517	(457)	974	213.13%
Intergovernmental	14,171	41,318	(27,147)	-65.70%
Miscellaneous revenues	31,945	25,012	6,933	27.72%
Gain on sale of assets	1,673	-	1,673	0.00%
	<u>\$ 1,259,415</u>	<u>\$ 1,235,309</u>	<u>\$ 24,106</u>	1.95%

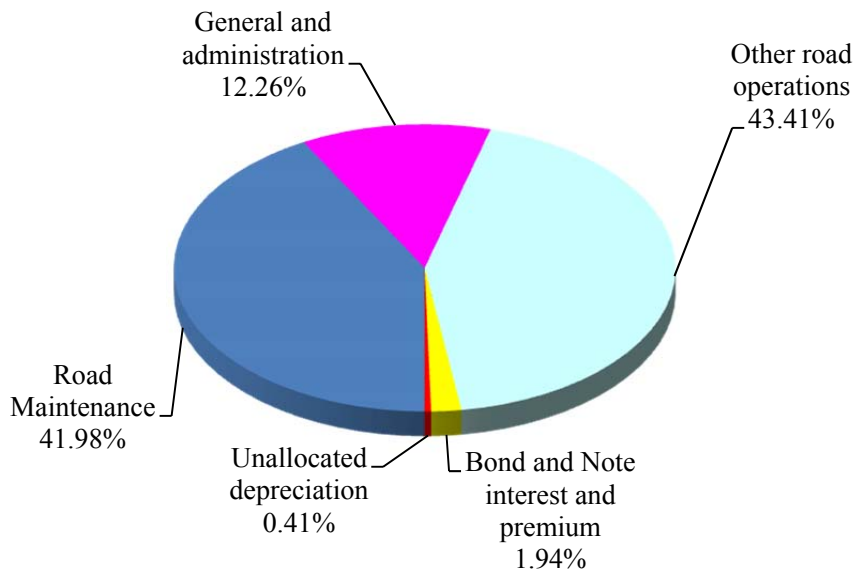
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

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.

FY 2011 tax collections reported on a cash basis grew by \$35.1 million (5.60%) over FY 2010 tax collections. Motor Fuel Tax collections were \$17.7 million (4.67%) above estimates and \$6.8 million (1.75%) higher than FY 2010 collections. Privilege Tax collections were \$16.9 million (10.91%) above estimates and \$24.1 million (16.28%) above FY 2010 collections. Registration Fee collections were \$2.2 million (2.47%) above estimates and \$3.8 million (4.36%) above FY 2010 collections. In FY 2012, Motor Fuel Tax, Privilege Tax collections and Registration Fee collections are all projected to be stagnant. As a result, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future, and it is possible that some programs will be reduced.

The Division also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Division expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2011 were authorized under the Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the American Recovery and Reinvestment Act of 2009.

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



Total expenses decreased by approximately \$26 million or 2.46%. The following summarizes expenditures for the years ended June 30, 2011 and June 30, 2010 (amounts in thousands):

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

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Road maintenance	\$ 433,905	\$ 411,816	\$ 22,089	5.36%
Other road operations	448,650	522,766	(74,116)	-14.18%
General and administration	126,704	99,118	27,586	27.83%
Interest on long-term debt	20,041	22,514	(2,473)	-10.98%
Unallocated depreciation	4,275	3,442	833	24.20%
	<u>\$ 1,033,575</u>	<u>\$ 1,059,656</u>	<u>\$ (26,081)</u>	-2.46%

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

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow removal and ice control (SRIC) that is required in a given year. In FY 2011, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the Division's Fund Financial Statements below.

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS

At June 30, 2011, the Division reported fund balances of approximately \$143 million. Of this total amount \$90 million, 62.81%, constitutes unassigned fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2011 fiscal year, unassigned fund balance of the General Fund was \$90 million and nonspendable fund balance was \$39 million while the restricted fund balance was \$15 million. The total General Fund balance decreased \$74 million during the fiscal year primarily due to increased expenditures for road construction, maintenance and rehabilitation projects.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service

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

payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. At June 30, 2011 the capital projects balance was \$0 because all of the remaining funds associated with the 2009A note issue were expended during FY 2011.

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. As fuel consumption is forecast to decrease each year through FY 2017, it is expected to have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. Neither Privilege Tax collections nor Registration Fee collections are forecast to increase significantly through FY 2017. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Motor fuel excise and wholesale fuel	\$ 406,347	\$ 393,557	\$ 12,790	3.25%
Motor vehicle registration	91,475	87,600	3,875	4.42%
Privilege tax	<u>168,602</u>	<u>147,466</u>	<u>21,136</u>	14.33%
	<u>\$ 666,424</u>	<u>\$ 628,623</u>	<u>\$ 37,801</u>	6.01%

The gasoline and special fuels excise tax was repealed by HB 218 passed during the 2008 Second Legislative Special Session, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. The variable rate last changed on January 1, 2009, when the rate rose from 11 cents to 11.7 cents per invoiced gallon. The variable rate remained unchanged in FY 2011.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2011 was \$503.8 million, used primarily for design, right-of-way and construction of Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

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

	2011	2010	Increase (Decrease)	% Increase (Decrease)
Federal reimbursement-Budgeted funds	\$ 497,783	\$ 494,588	\$ 3,195	0.65%
Federal reimbursement-Surface Transportation	27,577	27,591	(14)	-0.05%
Federal reimbursement-Emergency funds	9,242	9,842	(600)	-6.10%
	<u>\$ 534,602</u>	<u>\$ 532,021</u>	<u>\$ 2,581</u>	0.49%

It is anticipated that state revenues will basically remain unchanged in FY 2012. The Division's revenues are not projected to keep pace with increases in operating costs, and Management has taken steps to maintain a fiscally sound fund equity balance. The FY 2012 budget, exclusive of ARRA projects, which are 100% federally-reimbursed, reflects an approximate \$39 million reduction in expenditures and a \$434 thousand increase in fund balance. If revenues are significantly less than estimated, Management is confident that adequate discretionary expenditure items can be reduced to permit the Division to continue to operate in a fiscally sound manner.

The next six-year federal highway funding authorization is not expected to be enacted prior to the start of Federal Fiscal Year 2012. Consequently, the Division expects to receive its obligation authority through continuing resolutions. This will not have any immediate impact on budgets but could eventually lead to a reduction in expenditures due to the Division's reduced funding authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the Division had invested \$8.1 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$310 million.

The \$259 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$286 million in depreciation of the infrastructure. The Division expended \$583 million dollars during the year ended June 30, 2011 for additions to capital assets. Of this amount, \$534 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 \$650 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County and Grant Counties, completion of new segment of US Route 35 in Mason County, widening of I-79 in Harrison County, upgrade of WV Route 9 in the Eastern Panhandle, upgrade of US Route 52 in Mercer County, Coalfields Expressway in Raleigh County, Fairmont Connector, Mon/Fayette Expressway, and continued environmental studies on various projects in process.

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

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, 2011, the Division had \$305 million in outstanding bonds. The amount outstanding decreased by \$34 million (10.03%) due to net principal payments of \$31 million and \$3 million reduction due to refinancing the 1998A and 2001A series bonds.

The Division has also been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Division issued revenue notes in the amount of \$76 million in October 2006, \$33 million in April 2007, and \$77 million during fiscal year 2010. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2011, the Division had \$123 million in outstanding revenue notes. The amount decreased by \$22 million (14.91%) due to net principal payments.

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

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Safe Roads 01A - All Bonds maturing between June 1, 2007 to 2013	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	\$ 13,890
Safe Roads 05A - Bonds maturing on or before June 1, 2025	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	256,435
Safe Roads 10A - Bonds maturing on or before June 1, 2023.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	35,135
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	45,915
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	19,900
Surface Transportation Improvements Special Obligation Notes (Garvee 2009A) - Notes Maturing on or before June 1, 2016	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	56,980
			<u>\$ 428,255</u>

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (amounts expressed in thousands)

ASSETS	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 140,934
Accounts receivable, net	70,861
Taxes receivable	57,827
Due from other State of West Virginia agencies	3,309
Inventories	38,779
Total current assets	<u>311,710</u>
Non-current assets	
Capital assets not being depreciated	
Land - non-infrastructure	19,680
Land - infrastructure	956,518
Construction in progress	972,840
Capital assets net of accumulated depreciation	
Land improvements	7,415
Buildings	79,169
Furniture and fixtures	1,139
Rolling stock	71,437
Scientific equipment	545
Shop equipment	53
Roads	3,900,873
Bridges	2,101,528
Total capital assets	<u>8,111,197</u>
Other non-current assets	<u>2,331</u>
Total assets	<u>8,425,238</u>
LIABILITIES	
Current liabilities	
Accounts payable	55,133
Retainages payable	4,263
Accrued payroll and related liabilities	19,981
Deferred Revenue	634
Other Post Employment Benefits Liability	84,601
Due to other State of West Virginia agencies	3,601
Accrued interest payable	3,110
Current maturities of long term obligations	74,414
Total current liabilities	<u>245,737</u>
Non-current liabilities	
Claims and judgments	11,590
Compensated absences	17,366
Long - term debt obligations	396,945
Total non-current liabilities	<u>425,901</u>
Total liabilities	<u>671,638</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,654,175
Restricted	
Coal Resource	3,266
Waste Tire	2,495
Industrial Access	8,823
Unrestricted	<u>84,841</u>
Total net assets	<u>\$ 7,753,600</u>

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, 2011
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	\$ 334,484	\$ -	\$ -	\$ (334,484)
Contract paving & secondary roads	65,809	-	-	(65,809)
Small bridge repair & replacement	12,199	-	-	(12,199)
Litter control program	1,699	-	-	(1,699)
Depreciation	19,714	-	-	(19,714)
Other road operations				
Interstate highways	12,497	-	112,134	99,637
Appalachian highways	4,462	-	63,239	58,777
Other federal aid programs	142,964	-	359,229	216,265
Non federal aid improvements	2,760	-	-	(2,760)
Industrial access roads	355	-	3,000	2,645
Depreciation	285,612	-	-	(285,612)
General and administration				
Support and administrative operations	95,358	7,083	-	(88,275)
Claims	(2,940)	-	-	2,940
Costs associated with DMV	33,222	91,475	-	58,253
Costs associated with OAH	1,064	-	-	(1,064)
Interest on long-term debt	20,041	-	-	(20,041)
Unallocated depreciation	4,275	-	-	(4,275)
	<u>\$ 1,033,575</u>	<u>\$ 98,558</u>	<u>\$ 537,602</u>	<u>(397,415)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				406,347
Automobile privilege				168,602
Investment and interest income				517
Intergovernmental				14,171
Miscellaneous revenues				31,945
Gain on sale of assets				1,673
Total general revenues				<u>623,255</u>
Change in net assets				225,840
Net assets, beginning				<u>7,527,760</u>
Net assets, ending				<u>\$ 7,753,600</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011
(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	\$ 140,934	\$ -	\$ 140,934
Receivables	70,861	-	70,861
Taxes receivable	57,827	-	57,827
Due from other funds	6,079	-	6,079
Due from other State of West Virginia agencies	3,309	-	3,309
Inventories	38,779	-	38,779
Total assets	317,789	-	317,789
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	55,133	-	55,133
Retainages payable	4,263	-	4,263
Accrued payroll and related liabilities	19,981	-	19,981
Deferred revenue	634	-	634
Other post employment benefits	84,601	-	84,601
Due to other funds	6,079	-	6,079
Due to other State of West Virginia agencies	3,601	-	3,601
Total liabilities	174,292	-	174,292
Fund balances			
Nonspendable	38,779	-	38,779
Restricted			
Construction and maintenance of coal resource roads	3,266	-	3,266
Construction and maintenance of industrial access roads	8,823	-	8,823
Waste tire clean-up	2,495	-	2,495
Unassigned	90,134	-	90,134
Total fund balances	143,497	-	143,497
Total liabilities and fund balances	\$ 317,789	\$ -	\$ 317,789

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 FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (amounts expressed in thousands)

Total fund balances - governmental funds \$ 143,497

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

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

Capital assets not being depreciated		
Land - non-infrastructure	\$ 19,680	
Land - infrastructure	956,518	
Construction in progress	972,840	
Capital assets net of accumulated depreciation		
Land improvements	7,415	
Buildings	79,169	
Furniture and fixtures	1,139	
Rolling stock	71,437	
Scientific equipment	545	
Shop equipment	53	
Roads	3,900,873	
Bridges	<u>2,101,528</u>	8,111,197

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets. 2,331

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

Accrued interest payable	(3,110)	
Claims and judgments	(13,981)	
Compensated absences	(29,312)	
General obligation bonds and revenue notes	<u>(457,022)</u>	<u>(503,425)</u>

Net assets of governmental activities \$ 7,753,600

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
Revenues			
Taxes			
Gasoline and motor carrier	\$ 406,347	\$ -	\$ 406,347
Automobile privilege	168,602	-	168,602
Industrial access roads	3,000	-	3,000
License, fees and permits			
Motor vehicle registrations and licenses	91,475	-	91,475
Special fees and permits	7,083	-	7,083
Federal aid			
Interstate highways	112,134	-	112,134
Appalachian highways	63,239	-	63,239
Other federal aid programs	359,229	-	359,229
Investment and interest income, net of arbitrage rebate	509	8	517
Intergovernmental	14,171	-	14,171
Miscellaneous revenues	31,945	-	31,945
Total revenues	<u>1,257,734</u>	<u>8</u>	<u>1,257,742</u>
Expenditures			
Current			
Road maintenance			
Expressway, trunkline and feeder, state and local services	334,608	-	334,608
Contract paving and secondary roads	65,809	-	65,809
Small bridge repair and replacement	23,595	-	23,595
Litter control program	1,699	-	1,699
Support and administrative operations	129,104	-	129,104
Division of Motor Vehicles operations	33,222	-	33,222
Office of Administration Hearings operations	1,064	-	1,064
Claims	1,563	-	1,563
Capital outlay and other road operations			
Road construction and other road operations			
Interstate highways	128,278	-	128,278
Appalachian highways	84,470	-	84,470
Other federal aid programs	426,768	18,036	444,804
Nonfederal aid construction and road operations	27,717	-	27,717
Industrial access roads	355	-	355
Debt service			
Bond issue cost	442	-	442
Principal	52,980	-	52,980
Interest	22,829	-	22,829
Total expenditures	<u>1,334,503</u>	<u>18,036</u>	<u>1,352,539</u>
Excess (deficiency) of revenues over expenditures	(76,769)	(18,028)	(94,797)
Other financing sources (uses)			
Refunding bonds issued	35,135	-	35,135
Premium on refunding bonds	2,913	-	2,913
Payment to refunded bond escrow agent	(37,730)	-	(37,730)
Proceeds from sale of assets	2,506	-	2,506
Total other financing sources (uses)	<u>2,824</u>	<u>-</u>	<u>2,824</u>
Net change in fund balances	(73,945)	(18,028)	(91,973)
Fund balances, beginning of year	217,442	18,028	235,470
Fund balances, end of year	<u>\$ 143,497</u>	<u>\$ -</u>	<u>\$ 143,497</u>

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 BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ (91,973)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$ 569,025 exceeded depreciation of (\$ 309,601) in the current period. 259,424

In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold. (833)

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 repayments exceeded proceeds. 55,575

Bond premium is recognized on the fund balance statement as a revenue in the period the bonds are issued, but increases long-term liabilities in the statement of net assets. (2,913)

Bond issue costs are reported in the fund statements as expenses in the period the bonds are issued, but increase other assets on the statement of activities. 440

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increases in compensated absences of (\$1,162) and bond accretions (\$1,246), exceed the decrease in interest payable of \$462, claims of \$4,503, and the amortizations of bond issue cost of \$3,563. 6,120

Change in net assets of governmental activities \$ 225,840

The Accompanying Notes Are An Integral
Part Of These Financial Statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 380,000	\$ -	\$ 380,000	\$ 397,749	\$ 17,749
Automobile privilege	155,492	-	155,492	172,453	16,961
Motor vehicle registrations and licenses	88,995	-	88,995	91,195	2,200
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,000)	-
Federal aid	669,500	(88,500)	581,000	503,818	(77,182)
Miscellaneous revenues	34,819	-	34,819	29,097	(5,722)
	<u>1,325,806</u>	<u>(88,500)</u>	<u>1,237,306</u>	<u>1,191,312</u>	<u>(45,994)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	125,000	35,000	160,000	133,707	26,293
Appalachian highways	115,000	-	115,000	74,104	40,896
Other federal aid programs	325,700	-	325,700	324,629	1,071
Nonfederal aid construction	25,000	3,000	28,000	22,789	5,211
Federal economic stimulus	205,000	(120,000)	85,000	84,998	2
Road maintenance					
Maintenance	320,096	19,000	339,096	337,439	1,657
Contract paving and secondary roads	70,000	-	70,000	66,744	3,256
Small bridge repair and replacement	40,000	-	40,000	23,881	16,119
Litter control program	1,699	-	1,699	1,699	-
Support and administrative operations					
General operations	56,400	(1,400)	55,000	52,298	2,702
Equipment revolving	15,000	-	15,000	12,470	2,530
Inventory revolving	4,000	-	4,000	1,174	2,826
Debt service	50,000	(2,000)	48,000	48,000	-
Division of Motor Vehicles operations	37,830	-	37,830	33,567	4,263
Office of Administrative Hearings operations	-	1,600	1,600	985	615
Claims - DOH and DMV	1,565	(1)	1,564	1,563	1
	<u>1,392,290</u>	<u>(64,801)</u>	<u>1,327,489</u>	<u>1,220,047</u>	<u>107,442</u>
Excess (deficiency) of revenues over expenditures	(66,484)	(23,699)	(90,183)	(28,735)	61,448
Fund balance, beginning of year	<u>154,628</u>	<u>-</u>	<u>154,628</u>	<u>154,628</u>	<u>-</u>
Fund balance, end of year	<u>\$ 88,144</u>	<u>\$ (23,699)</u>	<u>\$ 64,445</u>	<u>\$ 125,893</u>	<u>\$ 61,448</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, 2011
(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, 2011 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. The government-wide statement of net assets reports \$14,584 restricted assets, of which all is restricted by enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units, if applicable. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION –

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

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

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

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2011, has been reported only in the government-wide financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2011 are a result of these routine payments and transfers.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the Coal Resource Fund, Industrial Access Fund and certain monies reported within the State Road Fund in accordance with accounting principles generally accepted in the United States of America are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2011, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$	(28,735)
Basis of accounting differences (budgetary to GAAP)		(53,470)
Unbudgeted funds		8,260
Deficiency of revenues over expenditures - GAAP basis	\$	(73,945)

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

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

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Buildings and non-infrastructure land have been recorded at cost since 1983. Infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the West Virginia Department of Transportation in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Division has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

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

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

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

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

OTHER ASSETS - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

POSTEMPLOYMENT BENEFITS – 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, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 13.

RETIREMENT BENEFITS - The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division, with employer contributions prescribed by the State Legislature as a percentage of covered payroll.

PREMIUMS, DISCOUNTS AND ISSUANCE COSTS - In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental activities. Where material, bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

FUND BALANCE – In accordance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* the 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 amounts reported in fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the West Virginia State Legislature. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The Division has no committed fund balances at June 30, 2011.

Amounts that are constrained by the Division’s *intent* to be used for specific purposes as expressed by the West Virginia State Legislature or budget and or finance officers of the Division to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. The Division has no assigned fund balances at June 30, 2011.

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECENT STATEMENTS ISSUED BY THE GASB –

The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The Division has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The Division has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and ACIPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Division has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – an amendment of GASB Statements No. 3, No. 6, No. 10, No. 15, No. 17, No. 23, No. 25, No. 27, No. 28, No. 31, and No. 33*, effective for fiscal years beginning after December 15, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Division has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statements No. 53*, effective for fiscal years beginning after June 15, 2011. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or sap counterparty's credit support provider is replaced. The Division has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011
 (amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS

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

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	\$ 17,130	\$ 17,130
Cash on deposit with State Treasurer in Debt Service Fund	10	10
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	98,275	98,275
Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool	25,511	25,511
Cash in transit	8	8
	\$ 140,934	\$ 140,934

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

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

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

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 BTI’s 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

“AAAm” is the highest principal stability fund rating assigned by Standard & Poor’s. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization.

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody’s	S&P		
Commercial paper	P-1	A-1	\$ 1,069,576	35.43%
Corporate bonds and notes	Aa1	AA	10,000	.33
	Aa2	AA	33,000	1.09
	Aa3	AA	31,000	1.03
	Aa3	A	53,000	1.76
Total corporate bonds and notes			127,000	4.21
U.S. agency bonds	Aaa	AAA	170,788	5.66
U.S. Treasury notes*	Aaa	AAA	298,345	9.88
U.S. Treasury bills*	Aaa	AAA	231,051	7.65
Negotiable Certificates of deposit	P-1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,279	6.64
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	14,800	0.49
Total repurchase agreements			84,357	2.79
Total Money Market Pool			\$ 3,018,560	100.00%

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

At June 30, 2011, the WV Money Market Pool investments had a total carrying value of \$3,018,560, of which the Division’s ownership represents 3.26%.

WV Short Term Bond Pool

Credit risk – The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P-1 by Moody’s. The following table provides information on the credit ratings of the WV Short Term Bond Pool’s investments (in thousands):

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate asset backed securities	Aaa	AAA	\$ 87,197	18.40
	Aaa	NR*	19,891	4.20
	** Aa3	AA+	454	0.10
	** B1	CCC	885	0.19
	** B3	B	366	0.08
	** B3	BBB	631	0.13
	** Ca	CCC	664	0.14
	** Caa2	CCC	473	0.10
	** Caa3	CCC	393	0.08
	** Caa3	D	27	0.01
	NR	NR	4,000	0.84
Total corporate asset backed securities			114,981	24.27
Corporate bonds and notes	Aaa	AA	2,043	0.43
	Aa1	A	4,143	0.87
	Aa2	AA	11,866	2.50
	Aa3	AA	7,064	1.49
	Aa3	A	13,040	2.75
	A1	AA	8,107	1.71
	A1	A	22,731	4.80
	A2	AA	2,555	0.54
	A2	A	23,976	5.06
	A3	A	8,770	1.85
Total corporate bonds and notes			104,295	22.00
Commercial paper	P-1	A-1	15,995	3.38
U.S. agency bonds	Aaa	AAA	20,017	4.22
U.S. Treasury notes***	Aaa	AAA	25,034	5.28
U.S. agency mortgage backed securities****	Aaa	AAA	97,296	20.53
Money market Funds	Aaa	AAAm	96,287	20.32
			\$ 473,905	100.00%

* NR = Not Rated

** These securities were not in compliance with BTI Investment Policy at June 30, 2011. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

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

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2011, the Division's ownership represents 5.38% of these amounts held by BTI.

Interest Rate Risk

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 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	\$ 84,357	1
U.S. Treasury notes	298,345	137
U.S. Treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. agency discount notes	697,164	45
Corporate bonds and notes	127,000	20
U.S. agency bonds/notes	170,788	66
Money market funds	200,279	1
	<u>\$ 3,018,560</u>	46

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

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ 25,034	227
Commercial paper	15,995	55
Corporate notes	104,295	234
Corporate asset backed securities	114,981	268
U.S. agency bonds/notes	20,017	85
U.S. agency mortgage backed securities	97,296	18
Money market fund	96,287	1
	\$ 473,905	138

Other Investment Risks

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Securities Lending

At June 30, 2011, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, \$10,692,488 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2011, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. The BTI is exposed to cash reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers.

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

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

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	\$ 10,479,134	\$ 10,692,488

The collateral pool is established as a segregated account and managed by Clearlend. The Pool is managed in a fashion to reduce loan exposure over time and to allow the BTI to unwind its securities lending program. The pool is also managed to:

- Reduce the loan exposure in line with collateral liquidity to prevent unnecessary realized losses;
- Use revenue or collateral gains to offset realized losses to limit cash injections required; and
- Continue to meet Standard & Poor's ratings and broader regulatory and statutory guidelines throughout the unwind process.

BTI wound down its securities lending program to avoid the increased risks associated with securities lending activities. The BTI exited the securities lending program in July 2011.

Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 consisted of the following:

Federal aid billed and not paid	\$ 3,401
Federal aid earned but not billed	57,793
Total federal aid receivable	61,194
Other receivables	10,159
Combined total receivables	71,353
Less: allowance for uncollectibles	(492)
Net accounts receivable	\$ 70,861

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.

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NOTE 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2011 consisted of the following:

Automobile privilege taxes	\$ 15,609
Motor fuel excise taxes	38,851
Registration fees	<u>3,367</u>
Total taxes receivable	<u><u>\$ 57,827</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, 2011 consisted of the following:

The Department of Motor Vehicles	\$ 2,299
Other agencies	<u>1,010</u>
Total amounts due from other State of West Virginia agencies	<u><u>\$ 3,309</u></u>

Amounts due to other State of West Virginia agencies at June 30, 2011 consisted of the following:

Public Employees Insurance Agency	\$ 1,829
Public Employee's Retirement	1,692
Other agencies	<u>80</u>
Total amounts due to other State of West Virginia agencies	<u><u>\$ 3,601</u></u>

NOTE 6: INVENTORIES

Inventories at June 30, 2011 consisted of the following:

Materials and supplies	\$ 26,166
Equipment repair parts	8,914
Gas and lubrication supplies	<u>3,699</u>
Total inventories	<u><u>\$ 38,779</u></u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land - non infrastructure	\$ 15,477	\$ 4,225	\$ 22	\$ 19,680
Land - infrastructure	928,577	28,269	328	956,518
Construction-in-progress - buildings	14,351	13,141	13,005	14,487
Construction-in-progress - land improvements	573	1,141	1,312	402
Construction-in-progress - roads	846,980	302,212	392,790	756,402
Construction-in-progress - bridges	255,161	203,280	256,892	201,549
	<u>2,061,119</u>	<u>552,268</u>	<u>664,349</u>	<u>1,949,038</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings	112,102	13,005	108	124,999
Furniture and fixtures	4,131	707	201	4,637
Land improvements - non infrastructure	10,053	1,312	-	11,365
Rolling stock	237,739	15,955	12,505	241,189
Shop equipment	3,050	7	-	3,057
Scientific equipment	2,785	88	-	2,873
Infrastructure - roads	7,735,618	392,790	-	8,128,408
Infrastructure - bridges	2,345,370	256,892	-	2,602,262
	<u>10,450,848</u>	<u>680,756</u>	<u>12,814</u>	<u>11,118,790</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings	42,286	3,608	64	45,830
Furniture and fixtures	3,535	164	201	3,498
Land improvements - non infrastructure	3,447	503	-	3,950
Rolling stock	162,284	19,524	12,056	169,752
Shop equipment	2,992	12	-	3,004
Scientific equipment	2,150	178	-	2,328
Infrastructure - roads	3,990,300	237,235	-	4,227,535
Infrastructure - bridges	452,357	48,377	-	500,734
	<u>4,659,351</u>	<u>309,601</u>	<u>12,321</u>	<u>4,956,631</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>5,791,497</u>	<u>371,155</u>	<u>493</u>	<u>6,162,159</u>
Governmental activities capital assets, net	<u>\$ 7,852,616</u>	<u>\$ 923,423</u>	<u>\$ 664,842</u>	<u>\$ 8,111,197</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 7: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$305,326 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$4,275 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Buildings and improvements	\$ 3,608
Furniture and fixtures	164
Land improvements	503
Total unallocated	4,275
Rolling stock	19,524
Shop equipment	12
Scientific equipment	178
Total road maintenance	19,714
Infrastructure - roads	237,235
Infrastructure - bridges	48,377
Total other road operations	285,612
Total depreciation expense	\$ 309,601

NOTE 8: RETAINAGES PAYABLE

Retainages payable includes funds withheld from payments to consulting firms and construction contractors. Retainage payments are made to the consultants and contractors when work is satisfactorily completed. The Division has entered into an arrangement with the BTI whereby amounts retained from payments to construction contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2011, retainages payable included \$237 that was on deposit at BTI for construction contractors.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2011, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue							
Safe road bonds	1998	4.30% - 5.25%	06/01/2023	\$ 36,025	\$ -	\$ 36,025	\$ -
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	25,595	-	11,705	13,890
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	277,895	-	21,460	256,435
Safe road bonds	2010	4.00%	06/01/2023	-	35,135	-	35,135
Total general obligation bonds				<u>339,515</u>	<u>35,135</u>	<u>69,190</u>	<u>305,460</u>
Bond premium				<u>22,551</u>	<u>2,913</u>	<u>1,794</u>	<u>23,670</u>
Total general obligation bonds payable net of premium				<u>362,066</u>	<u>38,048</u>	<u>70,984</u>	<u>329,130</u>
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	53,935	-	8,020	45,915
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	23,385	-	3,485	19,900
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	<u>66,995</u>	<u>-</u>	<u>10,015</u>	<u>56,980</u>
Total revenue notes payable				<u>144,315</u>	<u>-</u>	<u>21,520</u>	<u>122,795</u>
Bond premium				<u>6,116</u>	<u>-</u>	<u>1,019</u>	<u>5,097</u>
Total general obligation notes payable net of premium				<u>150,431</u>	<u>-</u>	<u>22,539</u>	<u>127,892</u>
Claims and judgments				18,485	1,076	5,580	13,981
Compensated absences				<u>28,150</u>	<u>1,242</u>	<u>80</u>	<u>29,312</u>
Total long-term obligations				<u>\$ 559,132</u>	<u>\$ 40,366</u>	<u>\$ 99,183</u>	<u>\$ 500,315</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

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

Debt service expenditures included interest of \$22,393 for the year ended June 30, 2011. 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:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017- 2021</u>	<u>2022- 2025</u>	<u>Total</u>
General obligation bonds payable from tax revenue:								
Safe road bonds	\$ 49,780	\$ 38,403	\$ 36,757	\$ 36,765	\$ 36,765	\$ 116,202	\$ 93,437	\$ 408,109
Less: interest	<u>14,915</u>	<u>13,173</u>	<u>11,917</u>	<u>10,675</u>	<u>9,370</u>	<u>32,177</u>	<u>10,422</u>	<u>102,649</u>
Total principal	34,865	25,230	24,840	26,090	27,395	84,025	83,015	305,460
Bond premium	<u>1,768</u>	<u>1,726</u>	<u>1,721</u>	<u>1,721</u>	<u>1,721</u>	<u>8,604</u>	<u>6,409</u>	<u>23,670</u>
Total principal and bond premium	<u>\$ 36,633</u>	<u>\$ 26,956</u>	<u>\$ 26,561</u>	<u>\$ 27,811</u>	<u>\$ 29,116</u>	<u>\$ 92,629</u>	<u>\$ 89,424</u>	<u>\$ 329,130</u>
Revenue notes payable from federal aid revenue:								
Surface transportation special obligation notes	\$ 27,588	\$ 27,547	\$ 27,519	\$ 27,504	\$ 27,499	\$ -	\$ -	\$ 137,657
Less: interest	<u>5,163</u>	<u>4,177</u>	<u>3,044</u>	<u>1,854</u>	<u>624</u>	<u>-</u>	<u>-</u>	<u>14,862</u>
Total principal	22,425	23,370	24,475	25,650	26,875	-	-	122,795
Note premium	<u>1,019</u>	<u>1,019</u>	<u>1,019</u>	<u>1,020</u>	<u>1,020</u>	<u>-</u>	<u>-</u>	<u>5,097</u>
Total principal and note premium	<u>\$ 23,444</u>	<u>\$ 24,389</u>	<u>\$ 25,494</u>	<u>\$ 26,670</u>	<u>\$ 27,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,892</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue \$550,000 of general obligation bonds to fund highway and road construction projects known as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of \$220,000 were issued during July 1998; \$110,000 were issued during July 1999; \$110,000 were issued during July 2000; and an additional \$110,000 were issued during July 2001.

In 2005, the State refinanced part of the above mentioned bonds in the amount of \$321,405. These bonds will be repaid from revenues of the State Road Fund through the year 2025. The refinancing was to advance-refund \$319,860 of outstanding 1998, 1999 and 2000 Series bonds. The net proceeds of \$351,405 (after payment of \$1,606 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government State and Local Government Series securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refinanced portions of the 1998, 1999, and 2000 Series bonds. The defeased bonds were called on June 1, 2010 and are no longer outstanding.

During the year ended June 30, 2007, the State was authorized by constitutional amendment to issue \$200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of \$76,000 were issued during October 2006 and \$33,000 were issued during April 2007. The Division sold \$76,835 of additional Garvee notes during the fiscal year ending June 30, 2009.

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 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.

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

	<u>Compensated Absences</u>	<u>Claims and Judgments</u>	<u>Obligation Bonds and Revenue Notes and Premium</u>	<u>Total</u>
Current liabilities	\$ 11,946	\$ 2,391	\$ 60,077	\$ 74,414
Long-term liabilities	<u>17,366</u>	<u>11,590</u>	<u>396,945</u>	<u>425,901</u>
	<u>\$ 29,312</u>	<u>\$ 13,981</u>	<u>\$ 457,022</u>	<u>\$ 500,315</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Year Ended</u> <u>June 30, 2009</u>
Estimated claims liability, July 1	\$ 18,485	\$ 7,809	\$ 12,729
Additions for claims incurred during the year	2,391	1,564	509
Changes in estimates for claims of prior periods	(5,331)	9,621	(4,715)
Payments on claims	<u>(1,564)</u>	<u>(509)</u>	<u>(714)</u>
Estimated claims liability, June 30	<u>\$ 13,981</u>	<u>\$ 18,485</u>	<u>\$ 7,809</u>

At June 30, 2011, approximately \$8,450 of tort claims, \$2,100 in environmental claims, and \$1,040 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$13,981 recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$2,391. 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.

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

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

- The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire June 30, 2012 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, 2011 the Division incurred payroll related expenditures of approximately \$27,290 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$22,213 in employer matching contributions to the State Public Retirement System.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$644,492 at June 30, 2011.

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

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

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Division. At June 30, 2011, there were approximately 415 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

NOTE 12: RETIREMENT PLAN

PLAN DESCRIPTION - The Division contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 or by calling (304) 558-3570.

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 17% of annual covered payroll, including the Division's contribution of 12.5% which is established by PERS. Effective July 1, 2011 the Division's contribution was increased to 14.5%. The Division's contributions to PERS for the years ended June 30, 2011, 2010, and 2009 were \$22,213, \$18,040, and \$18,154, respectively, equal to the required contributions for each year.

NOTE 13: OTHER-POST EMPLOYMENT BENEFITS

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

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

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The ARC rate is nine hundred three dollars per employee per month for the year ending June 30, 2011. The Division's ARC was \$39,946, \$30,555 and \$19,296 and the Division has paid premiums of \$8,230, \$7,516 and \$ 10,267, which represent 20.6%, 24.6% and 53.2% of the ARC, respectively, for the years ending June 30, 2011, 2010, and 2009. At June 30, 2011, the liability related to OPEB costs was \$84,601.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

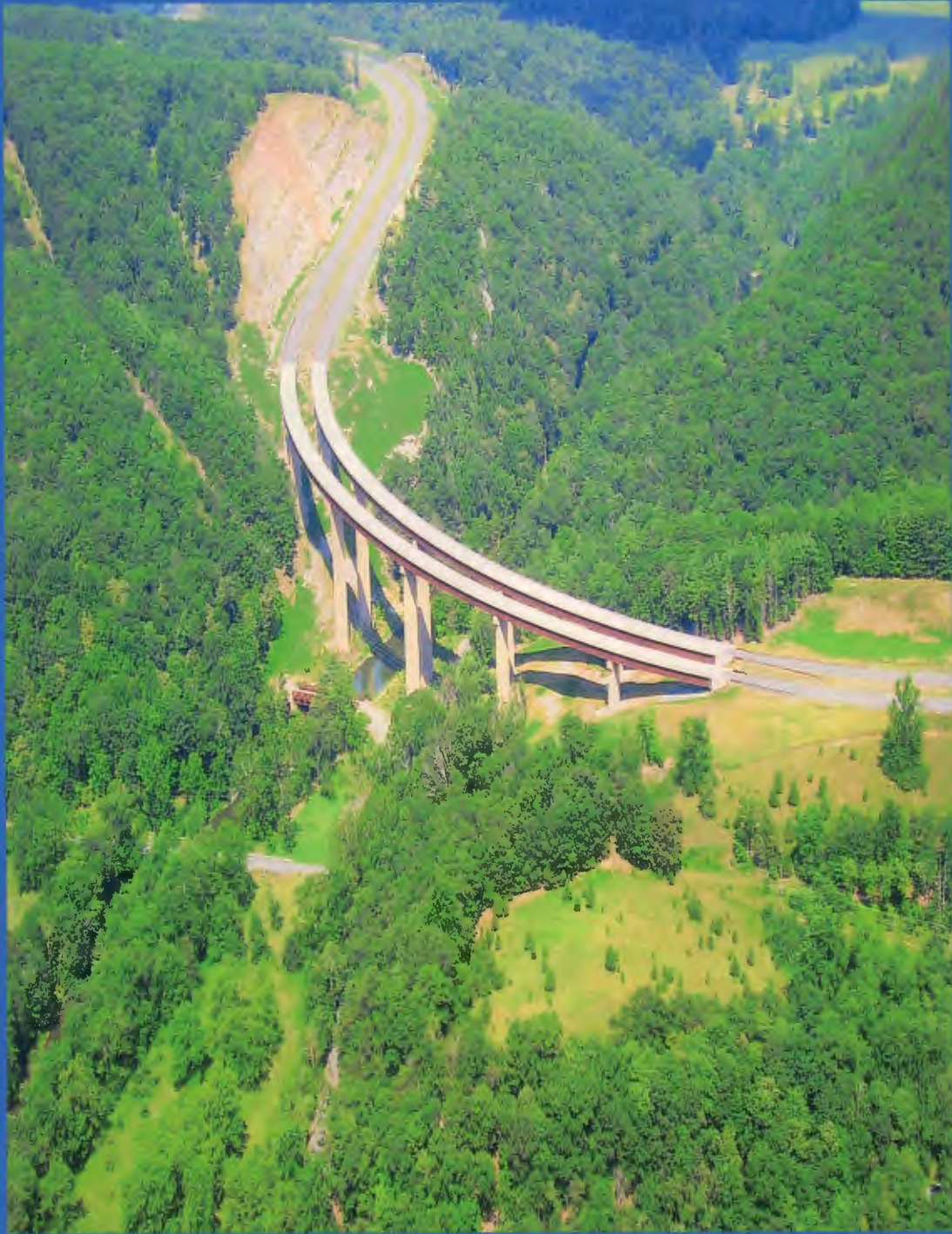
NOTE 14: RISK MANAGEMENT

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

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

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

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



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WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS



Statistical Section Narrative and Table of Contents

Financial Trends – These schedules contain trend information to help the reader understand how the Division’s financial performance and well-being have changed over time.

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Revenue Capacity Information – These schedules contain trend information to help the reader understand the Division’s capacity to raise revenues and the sources of those revenues.

Tax and License Fee Revenue by Source	68
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Debt Capacity Information – These schedules contain information to help the reader to understand the Division’s outstanding debt, the capacity to repay the debt, and the ability to issue new debt in the future.

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Demographic and Economic Information - These schedules offer indicators to help the reader understand the environment within which the Division’s financial activities take place.

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**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Net Assets by Component
Last Ten Fiscal Years**
(amounts expressed in thousands)

	Year Ended June 30			
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Governmental Activities				
Invested in capital assets, net of related debt	\$ 7,654,175	\$ 7,358,147	\$ 7,144,763	\$ 6,886,996
Restricted	14,584	17,035	18,119	17,892
Unrestricted	84,841	152,578	189,225	287,611
Total governmental activities net assets	<u>\$ 7,753,600</u>	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	<u>\$ 7,192,499</u>

Year Ended June 30

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$	6,592,210	\$ 6,475,338	\$ 6,193,029	\$ 5,980,261	\$ 5,756,415	\$ 5,198,392
	13,975	8,512	10,843	-	-	-
	296,681	138,096	123,684	111,234	83,768	85,275
	<u>6,902,866</u>	<u>\$ 6,621,946</u>	<u>\$ 6,327,556</u>	<u>\$ 6,091,495</u>	<u>\$ 5,840,183</u>	<u>\$ 5,283,667</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Changes in Net Assets
Last Ten Fiscal Years**
(amounts expressed in thousands)

	Year Ended June 30			
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues				
Governmental activities:				
General Revenues				
Motor fuel excise tax	\$ 406,347	\$ 393,557	\$ 391,903	\$ 395,641
Automobile privilege tax	168,602	147,466	141,930	169,095
Investment and interest income	517	(457)	1,919	9,691
Payments from primary government	14,171	41,318	27,924	18,843
Miscellaneous revenues	31,945	25,012	28,647	36,479
Gain on sale of assets	1,673	-	-	-
Total General Revenues	<u>623,255</u>	<u>606,896</u>	<u>592,323</u>	<u>629,749</u>
Program Revenues				
Capital grants and contributions:				
Federal aid	534,602	532,020	460,780	398,223.00
Industrial access roads	3,000	3,000	3,010	2,806.00
Charges for services:				
Motor vehicle registration fees	91,475	87,600	87,255	86,166.00
Special fees and permits	7,083	5,793	5,958	5,954.00
Total Program Revenues	<u>636,160</u>	<u>628,413</u>	<u>557,003</u>	<u>493,149</u>
Total governmental revenues	<u>1,259,415</u>	<u>1,235,309</u>	<u>1,149,326</u>	<u>1,122,898</u>
Expenses				
Governmental activities:				
Road maintenance				
Expressway, trunkline & feeder & SLS	334,484	319,219	306,686	282,337
Contract paving & secondary roads	65,809	62,542	108,779	92,331
Small bridge repair & replacement	12,199	10,416	29,880	17,402
Litter control program	1,699	1,688	1,692	1,684
Depreciation	19,714	17,951	17,046	16,892
Other road operations				
Interstate highways	12,497	86,148	39,292	11,735
Appalachian highways	4,462	5,482	7,567	3,276
Other federal aid programs	142,964	129,913	87,618	61,495
Non federal aid improvements	2,760	5,500	465	2,692
Industrial Access Roads	355	3,121	2,776	2,891
Depreciation	285,612	292,602	287,969	269,805
General and administration				
Support and administrative operations	95,358	55,956	47,692	50,720
Claims	(2,940)	11,172	(4,196)	7,308
Costs associated with DMV	33,222	31,990	30,358	28,884
Costs associated with OAH	1,064	-	-	-
Interest on long-term debt	20,041	22,514	22,730	23,692
Unallocated depreciation	4,275	3,442	3,364	3,262
Total governmental expenses	<u>1,033,575</u>	<u>1,059,656</u>	<u>989,718</u>	<u>876,406</u>
Change in net assets	225,840	175,653	159,608	246,492
Effect of adoption of accounting principle	-	-	-	43,141
Net assets, beginning	7,527,760	7,352,107	7,192,499	6,902,866
Net assets, ending	<u>\$ 7,753,600</u>	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	<u>\$ 7,192,499</u>

Year Ended June 30						
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$	364,550	\$ 330,538	\$ 320,891	\$ 303,934	\$ 296,842	\$ 300,964
	171,429	170,484	178,763	173,225	169,431	180,472
	9,652	4,701	1,906	1,542	3,655	8,148
	-	-	-	-	-	-
	37,459	53,255	25,589	15,165	18,793	15,062
	-	-	-	-	-	-
	<u>583,090</u>	<u>558,978</u>	<u>527,149</u>	<u>493,866</u>	<u>488,721</u>	<u>504,646</u>
	392,533	429,583	440,579	424,647	407,664	433,156
	3,126	3,016	2,351	3,465	1,891	3,914
	86,840	87,534	86,466	81,577	85,880	87,380
	5,263	4,290	4,554	4,461	3,965	4,173
	<u>487,762</u>	<u>524,423</u>	<u>533,950</u>	<u>514,150</u>	<u>499,400</u>	<u>528,623</u>
	<u>1,070,852</u>	<u>1,083,401</u>	<u>1,061,099</u>	<u>1,008,016</u>	<u>988,121</u>	<u>1,033,269</u>
	262,684	236,326	247,711	240,584	237,026	228,449
	42,785	48,345	46,090	36,451	43,417	41,536
	14,002	14,135	12,559	12,022	21,580	25,259
	1,663	1,744	1,688	1,637	1,492	1,595
	17,416	15,925	14,351	11,631	12,406	747
	11,514	4,479	16,662	6,256	3,152	54,614
	3,994	4,434	462	2,548	0	126,317
	82,182	92,941	116,383	107,142	83,240	199,802
	9,407	10,257	6,356	12,096	12,688	41,966
	1,407	5,475	1,822	1,967	523	2,224
	257,292	249,288	241,146	234,636	229,928	224,441
	27,108	43,609	66,966	21,302	40,964	53,183
	(3,000)	3,394	(2,504)	2,716	2,461	610
	35,250	34,346	34,544	35,145	34,194	32,029
	22,977	21,283	18,112	26,525	27,434	28,168
	3,251	3,030	2,690	4,046	2,096	14,022
	<u>789,932</u>	<u>789,011</u>	<u>825,038</u>	<u>756,704</u>	<u>752,601</u>	<u>1,074,962</u>
	280,920	294,390	236,061	251,312	235,520	(41,693)
	-	-	-	-	-	-
	6,621,946	6,327,556	6,091,495	5,840,183	5,604,663	5,325,360
	<u>6,902,866</u>	<u>6,621,946</u>	<u>6,327,556</u>	<u>6,091,495</u>	<u>5,840,183</u>	<u>5,283,667</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
LAST TEN FISCAL YEARS**

(modified accrual basis of accounting)
(amounts expressed in thousands)

	Year Ended June 30			
	2011	2010	2009	2008
Revenues				
Taxes				
Gasoline and motor carrier	\$ 406,347	\$ 393,557	\$ 391,903	\$ 395,641
Automobile privilege	168,602	147,466	141,930	169,095
Industrial access roads	3,000	3,000	3,010	2,806
License, fees and permits				
Motor vehicle registrations and licenses	91,475	87,600	87,255	86,166
Special fees and permits	7,083	5,793	5,958	5,954
Federal aid				
Interstate highways	112,134	112,435	121,087	80,203
Appalachian highways	63,239	81,840	73,894	80,111
Other federal aid programs	359,229	337,746	265,799	237,909
Investment and interest income, net of arbitrage rebate	517	(457)	1,919	9,692
Intergovernmental	14,171	41,318	27,924	-
Miscellaneous revenues	31,945	25,012	28,649	36,479
Total Revenues	1,257,742	1,235,310	1,149,328	1,104,056
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder,	334,608	318,389	312,984	283,726
Contract paving and secondary roads	65,809	62,542	108,779	92,331
Small bridge repair and replacement	23,595	27,638	47,813	22,480
Litter control program	1,699	1,688	1,692	1,684
Support and administrative operations	129,104	96,251	67,340	61,962
Division of Motor Vehicles operations	33,222	31,990	30,358	28,884
Office of Administrative Hearings operations	1,064	-	-	-
Claims	1,563	497	724	629
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	128,278	125,499	144,799	95,599
Appalachian highways	84,470	102,626	104,017	110,006
Other federal aid programs	444,804	426,980	361,965	358,353
Nonfederal aid construction and road op.	27,717	26,714	33,448	14,791
Industrial access roads	355	3,121	2,776	2,891
Debt service				
Bond Issue Costs	442	4	5	-
Principal	52,980	52,435	40,635	38,940
Interest	22,829	25,134	24,110	25,803
Total Expenditures	1,352,539	1,301,508	1,281,445	1,138,079
Excess (deficiency) of revenues over expenditures	(94,797)	(66,198)	(132,117)	(34,023)
Other financing sources (uses)				
Proceeds from issuance of debt	-	-	80,964	-
Transfers in	-	-	-	12,931
Transfers out	-	-	-	-
Refunding bonds issued	35,135	-	-	-
Premium on refunding bonds	2,913	-	-	-
Payment to refunded bond escrow agent	(37,730)	-	-	-
Proceeds from sale of assets	2,506	-	-	-
Total other financing sources (uses)	2,824	-	80,964	12,931
Prior period adjustment	-	(14,100)	-	-
Net change in fund balance	\$ (91,973)	\$ (80,298)	\$ (51,153)	\$ (21,092)
Debt Service as a percentage of noncapital expenditures	10%	10%	9%	11%

Year Ended June 30						
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$	364,550	\$ 330,538	\$ 320,891	\$ 303,934	\$ 296,842	\$ 300,964
	171,429	170,484	178,763	173,225	169,431	180,472
	3,126	3,016	2,351	3,465	1,891	3,914
	86,840	87,534	86,466	81,577	85,880	87,380
	5,263	4,290	4,554	4,461	3,965	4,173
	56,801	53,359	64,114	51,239	44,372	55,825
	93,552	104,228	101,247	126,286	168,789	161,088
	242,180	271,996	275,218	247,122	194,503	216,243
	9,652	4,701	1,906	1,542	3,655	8,148
	-	-	-	-	-	-
	37,459	53,255	25,589	15,165	18,846	15,062
	1,070,852	1,083,401	1,061,099	1,008,016	988,174	1,033,269
	258,720	238,425	247,456	246,648	238,591	228,456
	42,785	48,345	46,090	36,451	43,417	41,536
	17,100	22,099	18,699	19,492	28,749	25,603
	1,663	1,744	1,688	1,637	1,492	1,595
	55,911	75,050	56,242	51,038	57,655	70,927
	34,754	34,346	34,544	35,145	34,194	32,029
	-	-	-	-	-	-
	144	397	416	561	595	15
	70,926	69,406	75,030	59,992	54,733	67,992
	132,747	156,141	125,231	154,471	194,507	198,175
	348,650	354,562	350,464	318,032	262,481	295,131
	20,365	20,825	31,725	41,810	65,658	87,140
	1,407	5,475	1,822	1,967	523	2,224
	-	-	-	-	-	-
	18,150	19,920	28,060	23,070	22,040	21,485
	23,442	23,098	18,941	26,952	27,979	29,305
	1,026,764	1,069,833	1,036,408	1,017,266	1,032,614	1,101,613
	44,088	13,568	24,691	(9,250)	(44,440)	(68,344)
	112,097	-	-	-	-	114,172
	-	-	15	-	-	35,991
	-	-	(15)	-	-	(35,991)
	-	-	321,405	-	-	-
	-	-	-	-	-	-
	-	-	(321,405)	-	-	-
	-	-	-	-	-	-
	112,097	-	-	-	-	114,172
	-	-	-	-	-	-
\$	156,185	\$ 13,568	\$ 24,691	\$ (9,250)	\$ (44,440)	\$ 45,828

8%

8%

8%

9%

10%

6%

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Fund Balance, Governmental Fund
Last Ten Fiscal Years
(amounts expressed in thousands)**

	Fiscal Year		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Fund			
Nonspendable for inventories	\$ 38,779	\$ 37,157	\$ -
Restricted			
Construction and Maintenance of coal resource roads	3,266	-	-
Construction and Maintenance of industrial access roads	8,823	-	-
Waste tire clean-up	2,495	-	-
Unassigned	90,134	180,285	-
Reserved for inventories	-	-	39,881
Unreserved	-	-	218,945
Total General Fund	<u><u>\$ 143,497</u></u>	<u><u>\$ 217,442</u></u>	<u><u>\$ 258,826</u></u>
All Other Governmental Funds			
Restricted, capital projects fund	\$ -	\$ 18,028	\$ -
Reserved, capital projects fund	-	-	56,942
Total all funds	<u><u>\$ 143,497</u></u>	<u><u>\$ 235,470</u></u>	<u><u>\$ 315,768</u></u>

Fiscal Year

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	33,040	33,259	34,592	31,459	29,462	27,461	30,273
	320,030	272,736	197,236	186,801	164,092	143,928	133,303
\$	353,070	305,995	231,828	218,260	193,554	171,389	163,576

\$	-	-	-	-	-	-	-
	13,851	82,018	-	-	15	31,430	83,683
\$	366,921	388,013	231,828	218,260	193,569	202,819	247,259

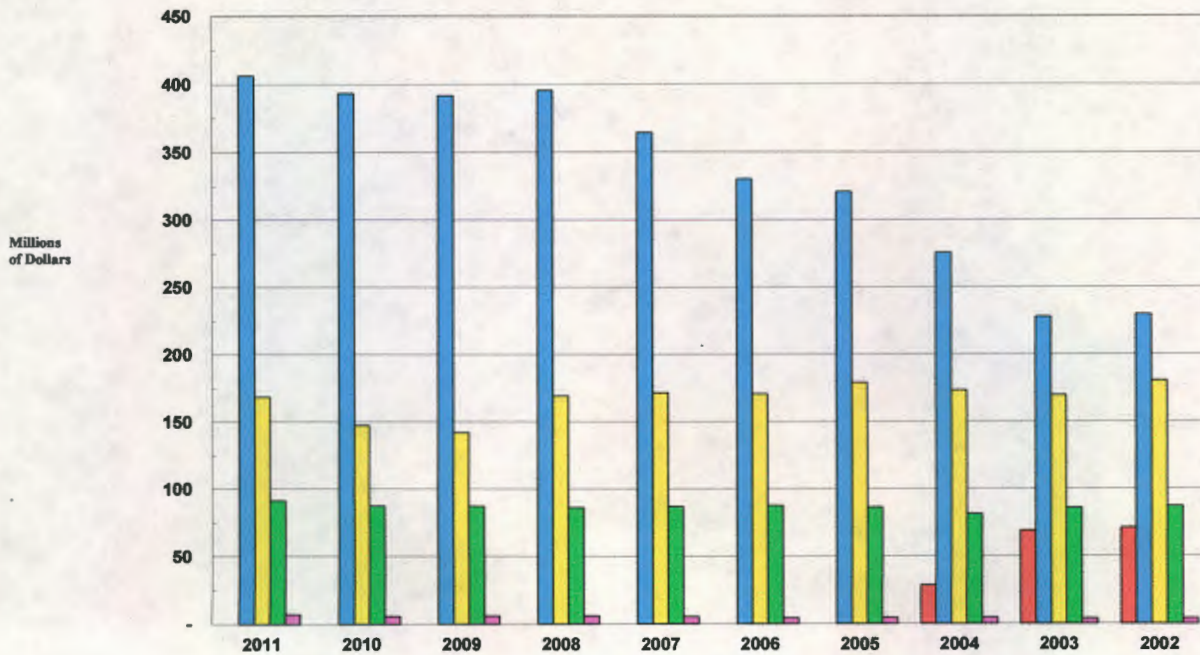


**DIVISION OF HIGHWAYS
TAX AND LICENSE FEE REVENUE BY SOURCE⁽¹⁾**
Last Ten Fiscal Years
(Amount expressed in thousands)

Fiscal Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Gasoline/Motor Carrier	406,347	393,557	\$391,903	\$395,641	\$364,550	\$330,538	\$320,891	\$275,471	\$227,793	\$229,650
Automobile Privilege	168,602	147,466	141,930	169,095	171,429	170,484	178,763	173,225	169,431	180,472
Registration/License Fees	91,475	87,600	87,255	86,166	86,840	87,534	86,466	81,577	85,880	87,380
Special Fees & Permits	7,083	5,793	5,958	5,954	5,263	4,290	4,554	4,461	3,965	4,173
Motor Fuel	-	-	-	-	-	-	-	28,463	69,049	71,314
Total	\$673,507	\$634,416	\$627,046	\$656,856	\$628,082	\$592,846	\$590,674	\$563,197	\$556,118	\$572,989



(1) As collected by State Road (General) Fund.

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the Divisions revenue.

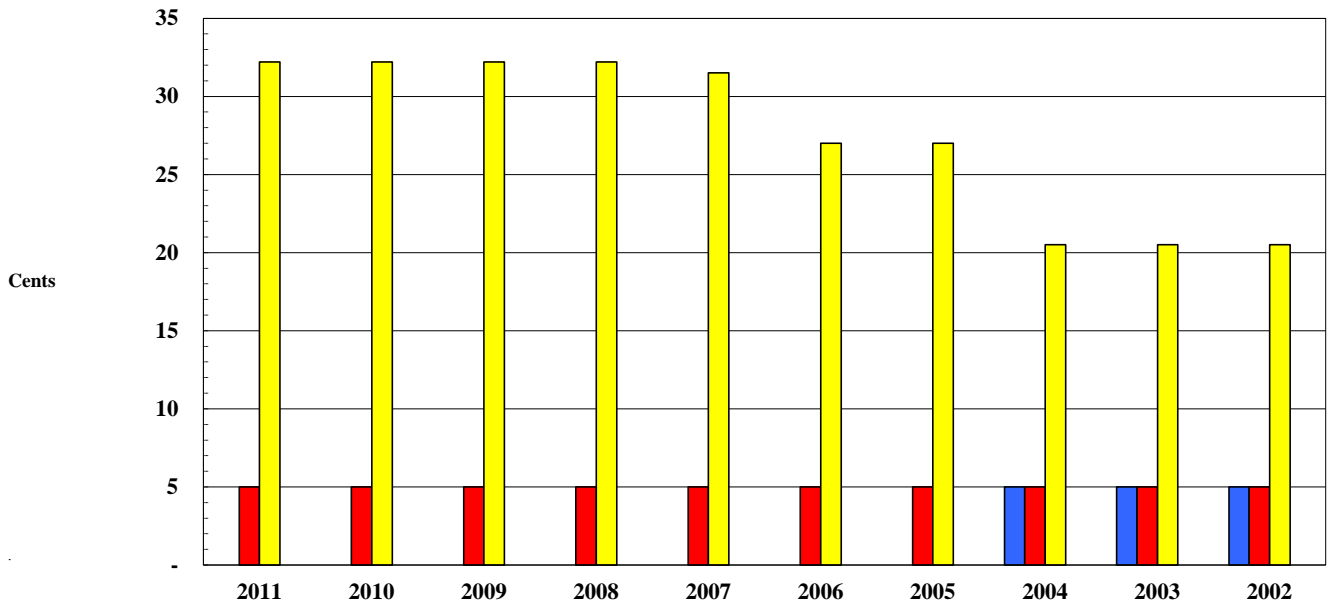




**DIVISION OF HIGHWAYS
FUEL AND PRIVILEGE TAX RATES
Last Ten Fiscal Years**

Fiscal Year		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Excise Motor Fuel(1) (cents per gallon)		-	-	-	-	-	-	-	5	5	5
Automobile Privilege(2) (cents per dollar)		5	5	5	5	5	5	5	5	5	5
Motor Fuel Excise Tax(1) (cents per gallon)		32.2	32.2	32.2	32.2	31.5	27.0	27.0	20.5	20.5	20.5

- (1) On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate of 11.7 cents per invoiced gallon as of January 1, 2011.
- (2) A tax equal to five percent of the value of said motor vehicle at the time of certification.



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands, except per capita amount)

Primary Government - Debt					
Fiscal Year	General Obligation Bonds	Revenue Notes	Total Primary Government	Percentage of Personal Income*	Per Capita*
2011	\$ 305,460	\$ 122,795	\$ 428,255	0.72%	230.99
2010	339,515	144,315	483,830	0.84%	265.87
2009	371,105	165,160	536,265	0.93%	295.48
2008	401,190	98,875	500,065	0.92%	276.10
2007	429,845	109,160	539,005	1.04%	298.25
2006	447,995	-	447,995	0.93%	248.35
2005	467,915	-	467,915	1.01%	259.48
2004	494,430	-	494,430	1.13%	274.34
2003	517,500	-	517,500	1.19%	287.59
2002	539,540	-	539,540	1.29%	299.98

Government Activities Tax and Fee Income					
Fiscal Year	Gasoline and Motor Carrier	Automobile Privilege	Motor Vehicle Registrations and Licenses	Special Fees and Permits	Total
2011	\$ 406,347	\$ 168,602	\$ 91,475	\$ 7,083	\$ 673,507
2010	393,557	147,466	87,600	5,793	634,416
2009	391,903	141,930	87,255	5,958	627,046
2008	395,641	169,095	86,166	5,954	656,856
2007	364,550	171,429	86,840	5,263	628,082
2006	330,538	170,484	87,534	4,290	592,846
2005	320,891	178,763	86,466	4,554	590,674
2004	303,934	173,225	81,577	4,461	563,197
2003	296,842	169,431	85,880	3,965	556,118
2002	300,964	180,472	87,380	4,173	572,989

General Obligation Bond Debt Ratio				
Fiscal Year	General Obligation Bonds	Percentage of Tax and Fee Income	Percentage of Personal Income*	Per Capita*
2011	\$ 305,460	45.35%	0.51%	\$ 164.76
2010	339,515	53.52%	0.59%	186.57
2009	371,105	59.18%	0.64%	204.48
2008	401,190	61.08%	0.74%	221.51
2007	429,845	68.44%	0.83%	237.85
2006	447,995	75.57%	0.93%	248.35
2005	467,915	79.22%	1.01%	259.48
2004	494,430	87.79%	1.13%	274.34
2003	517,500	93.06%	1.19%	287.59
2002	539,540	94.16%	1.29%	299.98

* These ratios are calculated using personal income and population for the prior calendar year. See page 71 for personal income and population data.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Demographic Statistics of West Virginia
Last Ten Calendar Years**

Calendar Year	Total Population	Total Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate	Median Age
2010	1,853,973	59,325,000	31,999	9.1%	41.2
2009	1,819,777	57,419,000	31,075	7.9%	40.5
2008	1,814,873	57,620,000	31,310	4.3%	40.6
2007	1,811,198	54,100,000	29,497	4.3%	40.4
2006	1,807,237	51,862,000	28,372	4.6%	40.7
2005	1,803,920	48,139,000	26,443	4.9%	40.7
2004	1,803,302	46,497,000	25,784	5.3%	40.2
2003	1,802,238	43,841,000	24,326	6.0%	39.9
2002	1,799,411	43,312,000	24,070	5.9%	39.5
2001	1,798,582	41,902,000	23,297	5.2%	39.3

Sources: Workforce West Virginia Research, Information, and Analysis Office and the U.S. Census Bureau.

This schedule has been revised.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Principal Employers
Current Year and Ten Years Ago**

	Largest Employer Rank			
	2011	2010	2009	2008
Wal-Mart Associates, Inc.	1	1	1	1
WV United Healthcare	2	2	2	2
Charleston Area Medical Center, Inc.	3	3	3	3
Kroger	4	4	4	4
Consolidation Coal Company	5	6	9	10
Mylan Pharmaceuticals, Inc	6	10	-	-
Lowe's Home Centers, Inc.	7	7	10	8
St. Mary's Hospital	8	8	7	9
American Electric Power	9	5	5	6
Mentor Management (Mentor Network, The)	10	-	-	-
Res-Care, Inc.	-	9	-	-
Pilgrim's Pride Corporation of West Virginia	-	-	-	-
Verizon	-	-	-	-
E I DuPont De Nemours & Company	-	-	-	-
ISG Weirton Inc.	-	-	-	-
Union Carbide Corporation/Dow Corporation	-	-	-	-
Allegheny Energy Service Corporation	-	-	-	-
Eldercare Resources Corpotaion	-	-	6	7
CSX/CSX Hotels Inc. (The Greenbrier and railroad)	-	-	8	5

Source: West Virginia Bureau of Employment Programs, Office of Labor and Economic Research.

Note: Due to confidentiality issues, the number of people employed is not available. The categories presented are intended to provide alternative information regarding the principal employers in the state of West Virginia.

Largest Employer Rank

2007	2006	2005	2004	2003	2002
1	1	1	1	1	1
2	2	3	3	2	2
3	3	2	2	3	3
4	4	4	4	4	5
-	8	8	-	-	-
-	-	-	-	-	-
7	7	-	-	-	-
10	10	-	-	10	-
5	6	6	7	-	9
-	-	-	-	-	-
-	-	-	-	-	-
9	-	-	-	-	-
-	9	9	9	8	8
-	-	7	8	7	7
-	-	10	6	5	4
-	-	-	-	-	-
-	-	-	10	9	10
6	-	-	-	-	-
8	5	5	5	6	6

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS**

**Employees by Program
Last Ten Fiscal Years**

<u>Program</u>	<u>Employees as of June 30</u>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Maintenance	3,547	3,534	3,539	3,372
Construction	950	927	898	888
General and administration	309	298	306	296
Total	4,806	4,759	4,743	4,556

Source: Division of Highways Budget Office.

Employees as of June 30

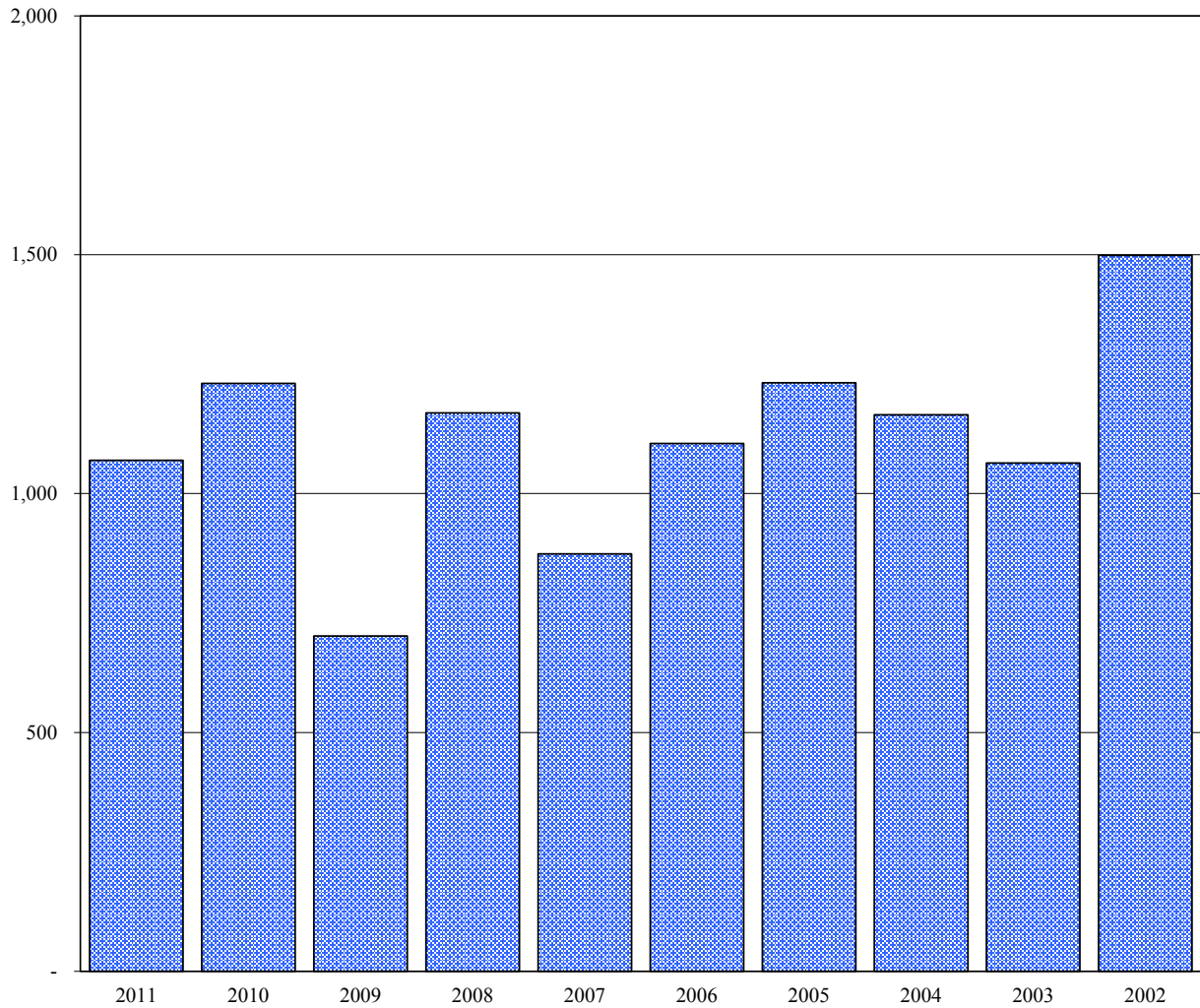
<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
3,340	3,327	3,472	3,504	3,604	3,616
907	961	981	1,007	1,033	1,033
313	332	355	358	367	367
<u>4,560</u>	<u>4,620</u>	<u>4,808</u>	<u>4,869</u>	<u>5,004</u>	<u>5,016</u>



**DIVISION OF HIGHWAYS
HIGHWAY CONSTRUCTION AND IMPROVEMENT
TOTAL PROJECTS AUTHORIZED
Last Ten Fiscal Years**

Fiscal Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	Total Projects
Projects	1,070	1,231	702	1,169	874	1,105	1,232	1,165	1,064	1,499	11,111

Number of Projects





**DIVISION OF HIGHWAYS
HIGHWAY CONSTRUCTION AND IMPROVEMENT
TOTAL PROJECTS AUTHORIZED BY TYPE**

Last Ten Fiscal Years

Federal Aid
(Number of Projects)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Bond	0	0	0	0	0	0	0	0	1	0
Interstate Construction	7	6	5	11	10	9	4	5	4	9
Interstate Renovation	19	20	16	18	22	15	25	29	26	23
Interstate Expansion	1	0	0	0	0	0	0	0	0	0
Non-Interstate Other	75	44	2	3	4	62	68	65	68	62
ARRA	8	70	73	0	0	0	0	0	0	0
Appalachian Development	30	16	19	19	19	25	12	13	14	25
Other Bridge	50	51	27	24	31	33	40	31	36	62
Miscellaneous	201	205	194	125	137	123	200	208	149	172
Total	391	412	336	200	223	267	349	351	298	353

Non-Federal Aid
(Number of Projects)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Maintenance	276	415	50	444	321	418	445	424	335	448
Bridge Replacement and Renovation	28	26	37	48	32	41	54	29	48	73
Miscellaneous Bridge Work	70	63	20	90	30	40	35	20	36	44
Industrial Access Roads	4	8	4	4	6	7	10	5	7	15
Bond	0	0	0	0	0	0	0	0	11	21
Roadway Renovation and Improvement	301	307	255	383	262	332	339	336	329	545
Total	679	819	366	969	651	838	883	814	766	1146
Grand Total	1070	1231	702	1169	874	1105	1232	1165	1064	1499

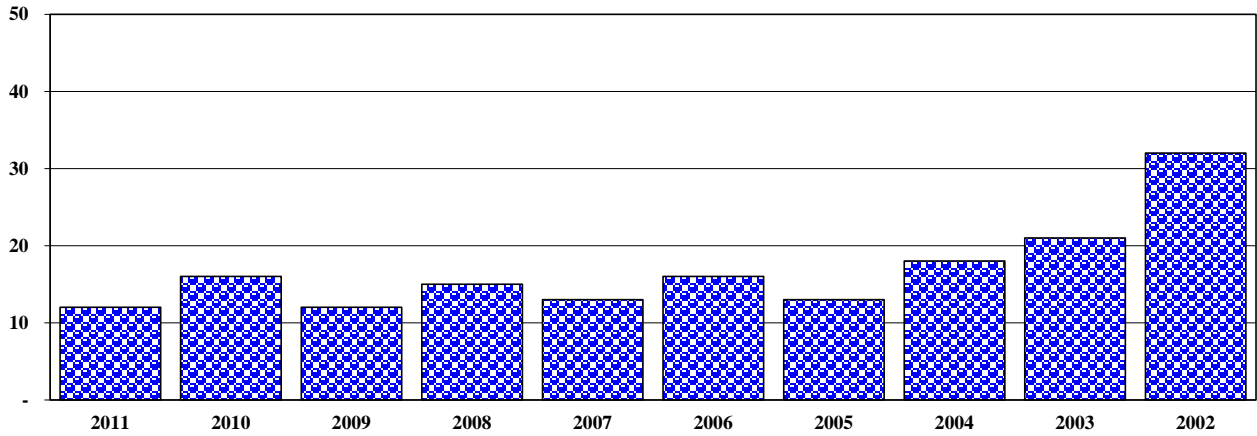
TOTAL AUTHORIZED PROJECTS = 11,111



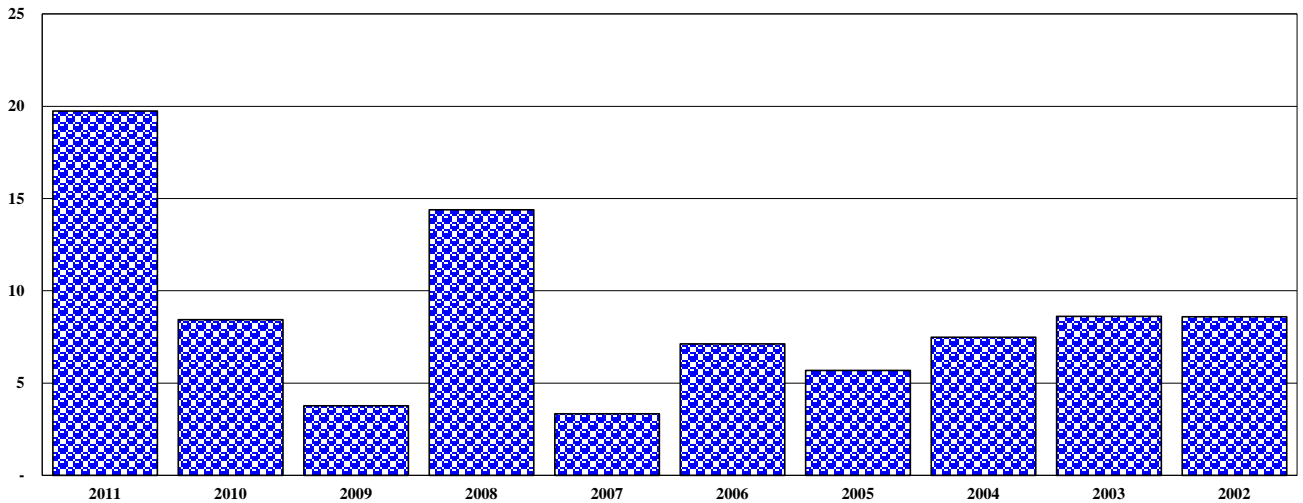
DIVISION OF HIGHWAYS
ROADWAY PROJECTS - SYSTEM EXPANSION ONLY
 Last Ten Fiscal Years

Fiscal Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of Projects	12	16	12	15	13	16	13	18	21	32
Number of Miles	19.75	8.44	3.77	14.39	3.34	7.13	5.69	7.49	8.62	8.60

Number of Projects



Number of Miles

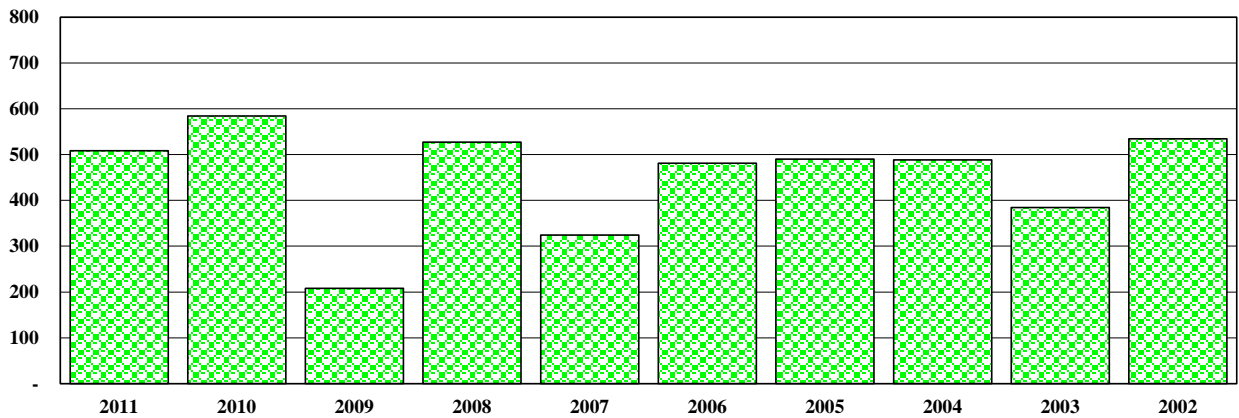




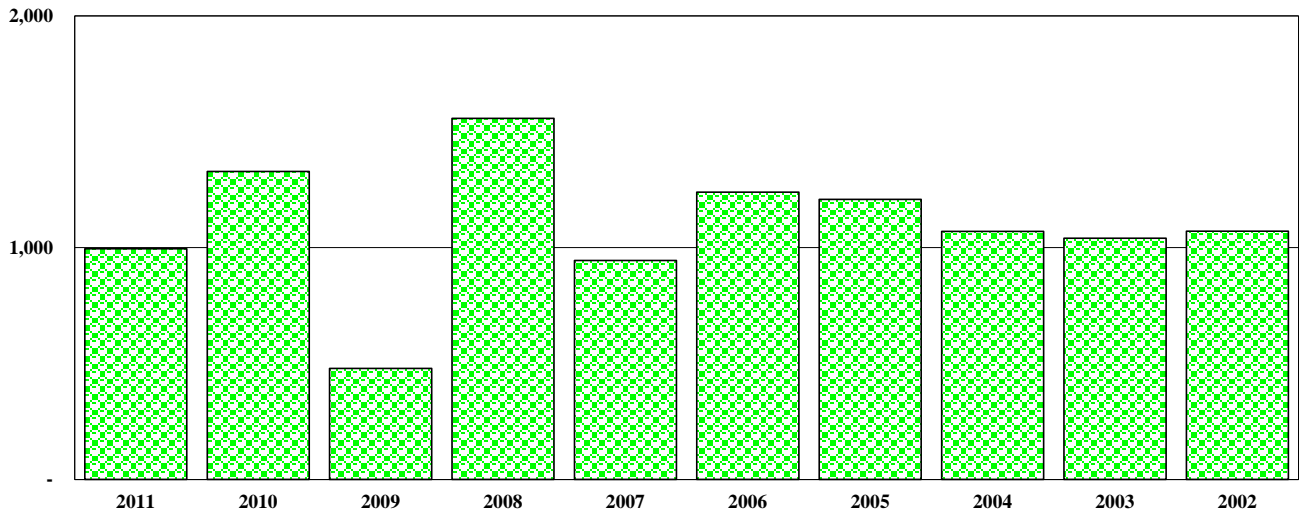
DIVISION OF HIGHWAYS
ROADWAY RESURFACING PROJECTS
 Last Ten Fiscal Years

Fiscal Year	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of Projects	508	584	208	527	324	481	490	488	384	534
Number of Miles	995	1,328	479	1,557	944	1,239	1,208	1,070	1,040	1,071

Number of Projects



Number of Miles



DIVISION OF HIGHWAYS
TOTAL HIGHWAY MILEAGE BY CATEGORY

<u>Total Road System</u>	
Interstate Highway	468
U.S. Routes	1,799
W.V. Routes	3,660
County Routes	28,874
Other	<u>1,081</u>
 Total Miles	 35,882

This classification system, established solely as an aid to the motoring public, consist of all routes identified by a route number sign.

<u>Federal Aid Routes</u>		
	<u>Rural Miles</u>	<u>Urban Miles</u>
<u>Interstate Highways (Part of National Highway System)</u>	315*	153**
<p>Interstate Highways are multi-lane, fully access-controlled routes that serve the national defense, and connect the nation's principal metropolitan areas, cities, and/or industrial centers.</p> <p>* Includes 4 miles of one way connecting ramps ** Includes 1 mile of one way connecting ramps</p>		
<u>Other National Highway System</u>	1,049	199
<p>Other major routes, including most principal arterials that are the most important to interstate travel and national defense, roads that connect with other modes of transportation, and roads essential for international commerce.</p>		
<u>Other Federal-Aid Highways</u>	<u>7,053</u>	<u>1,670</u>
<p>All other roads on which federal highway funds may be expended.</p>		
Sub-total miles	8,417	2,022
Total Miles	10,439	



