

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012**

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012**

PREPARED BY
FINANCE AND ADMINISTRATION DIVISION

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CHARLESTON, WEST VIRGINIA 25305

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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2012

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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2012

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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**

**Earl Ray Tomblin
Governor**

**Paul A. Mattox, Jr., P. E.
Secretary of Transportation/
Commissioner of Highways**

December 31, 2012

The Honorable Earl Ray Tomblin, Governor;
The 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, 2012. 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, 2012. 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, 2012 is available upon request.

Management's discussion and analysis (MD&A) immediately follows the independent auditor'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 GOVERNMENT

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 above mentioned 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

According to the *West Virginia Economic Outlook 2013*, published by the Bureau of Business and Economic Research at the College of Business and Economics, West Virginia University, “West Virginia continues to pull out of the Great Recession. Strong economic and job growth in 2011 is expected to continue to improve over the next five years. Employment is forecast to reach pre-recession levels by 2013. The West Virginia economy added 12,600 jobs between 2010 and 2011, an increase of 1.7 percent, and by January came within 400 jobs of matching the state’s pre-recession employment levels. The job gains led to the unemployment rate improving from 8.4 percent to 8.0 percent by the end of last year and continuing to fall through the first quarter of 2012. The unemployment rate is forecast to move from 7.9 percent at the end of 2011 to 5.7 percent by 2017.

The West Virginia economy is expected to recover slowly from the Great Recession over the next five years. The pace of the recovery will be greatly influenced by activity in the energy sector which faces significant challenges as mine and power plant closures continue to cause job losses over the near term.”

LONG-TERM FINANCIAL PLANNING

The schedule that follows presents summary revenue and expenditure information for the State Road (General) Fund for the year ended June 30, 2012. All data is presented in thousands of dollars.

	<u>Change from Prior Year</u>			
	<u>Amount</u>	Percent of <u>Total</u>	<u>Amount</u>	<u>Percent</u>
Motor fuel excise tax	\$408,571	32%	\$2,224	1%
Automobile privilege taxes	186,300	15%	17,698	11%
Motor vehicle registration and licenses	89,741	7%	(1,734)	(2)%
Special fees and permits	8,380	1%	1,297	18%
Federal aid	497,814	40%	(36,788)	(7)%
Investments and interest income	209	0%	(308)	(60)%
Intergovernmental	28,078	2%	13,907	98%
Miscellaneous	37,695	3%	2,750	8%
Total revenues	\$1,256,788	100%	\$(954)	0%
Road construction and other road operations	\$646,939	47%	\$(38,685)	(6)%
Road maintenance	488,435	36%	62,724	15%
Support and administrative operations	150,395	11%	(14,558)	(9)%
Debt Service	77,371	6%	1,120	1%
Total Expenditures	\$1,363,140	100%	\$10,601	1%

Overall, State tax and fee revenues in Fiscal Year 2012 increased by less than one percent over Fiscal Year 2011. State Road Fund revenues and fees are forecast to remain stagnant through Fiscal Year 2018. Federal Aid revenues dropped sharply due to the majority of ARRA (American Recovery and Reinvestment Act of 2009) stimulus funds being expended and reimbursed. Investments and interest income also dropped sharply due to a decreasing cash balance in the State Road Fund and historically low interest rates. Without new revenue sources, or increased motor fuel taxes and DMV fees, the State Road Fund cannot sustain the current level of funding without reducing the agency's level of service to the citizens of West Virginia and the traveling public.

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.

At June 30, 2012 the outstanding principal balance of long-term general obligation bonds was \$270,595,000. These bonds were issued between 1998 and 2010 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 will be \$38.4 million for fiscal year 2013 and \$36.7 million for fiscal years 2014-2016.

At June 30, 2012 the outstanding principal balance of the Grant Anticipation Revenue Vehicle (GARVEE) notes was \$100,370,000. 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. Work is currently underway on minor widening and resurfacing of the remaining 14 mile, 2-lane section of US 35 in Mason and Putnam Counties. July 11, 2011 marked the official ribbon cutting of 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. 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 7,027 vehicular 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 4,372 bridges have been repaired or replaced at a cost of more than \$3.0 billion. Other accomplishments during the fiscal year ended June 30, 2012 include the resurfacing of approximately 1,809 miles of roadway at a cost of \$233 million.

During the fiscal year ended June 30, 2012, the Division continued to improve the operating efficiency of the heavy equipment road maintenance fleet through the procurement of approximately \$18 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 twenty consecutive fiscal years (1992-2011). 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, 2011.

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 FY2012 comprehensive annual financial report 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 comprehensive annual financial report 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, 2011

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.



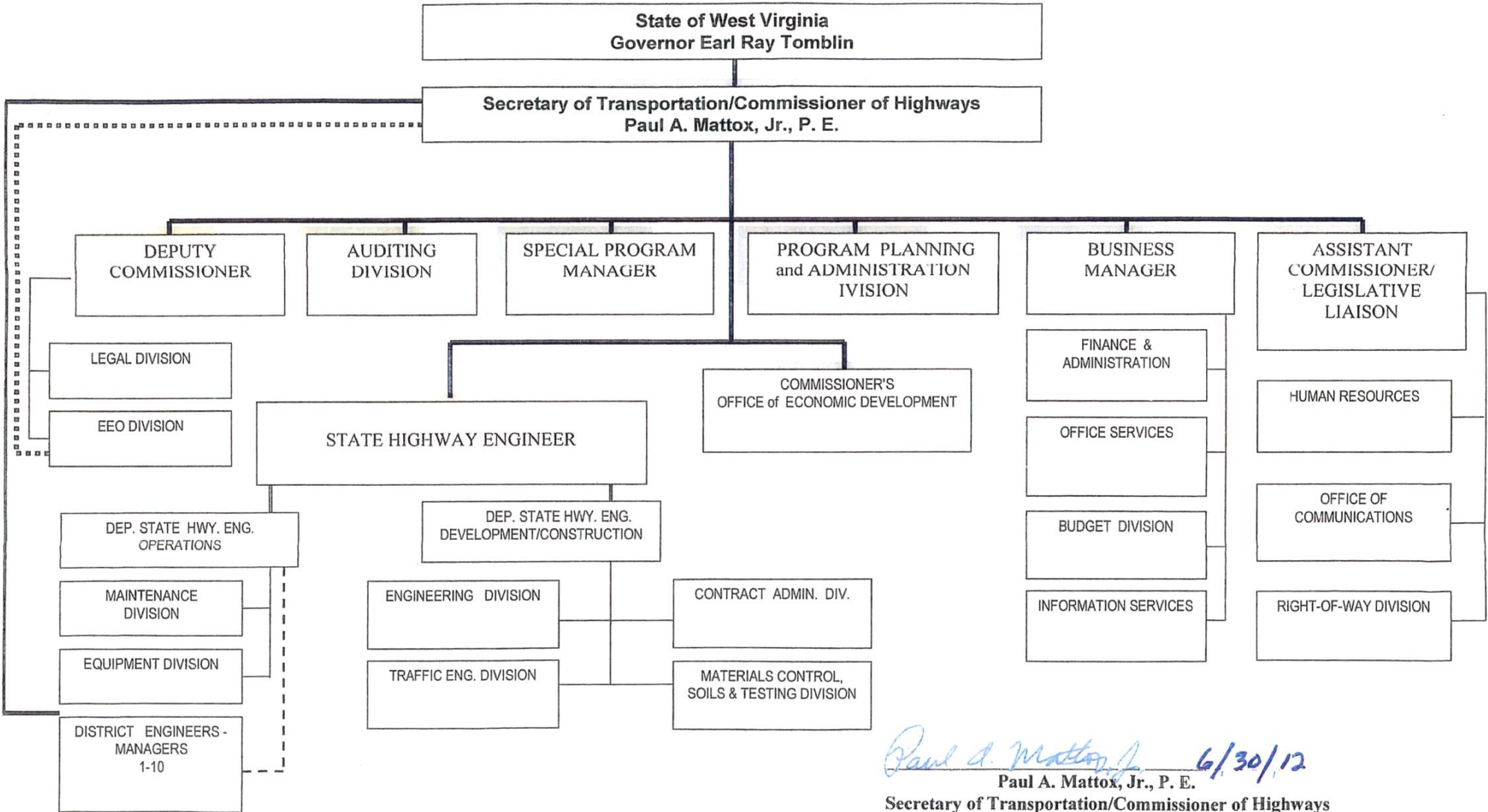
Linda C. Danison

President

Jeffrey R. Emer

Executive Director

WEST VIRGINIA DIVISION OF HIGHWAYS



Paul A. Mattox, Jr. 6/30/12

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, 2012

Paul A. Mattox, Jr.	Cabinet Secretary of Transportation
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	Director, Finance & Administration Division
Jeff Black	Director, Human Resources Division
Kim Asseff	Director, Information Services Division
Anthony Halkias	Director, Legal Division
Kyle Stollings	Director, Maintenance Division
Aaron Gillespie	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	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	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	Steven Cole (Acting)	Lewisburg
District 10	Tom Camden	Princeton

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WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

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INDEPENDENT ACCOUNTANTS' REPORT

November 10, 2012

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, 2012, 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, 2012, 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, 2012, 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.

West Virginia Department of Transportation
Division of Highways
Independent Accountants' Report
Page Two

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, 2012. 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 \$7.70 billion as of the close of fiscal year 2012.

Changes in Net Assets - During the year the Divisions' net assets decreased \$49 million or .63%. This percentage is a decrease from the prior year, when net assets increased \$226 million or 3.00%.

Revenues and Expenses - Total revenues decreased by \$478 thousand or .04% Total expenses increased \$274 million or 26.51%. 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 2012, the Division's governmental funds reported combined total fund equity of \$40 million, a decrease of \$104 million in comparison with the prior year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$35 million during the current fiscal year. The Division's total outstanding special obligation notes, net of note premium, decreased by \$22 million decreasing total long term debt by 13.38% 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, 2012 and 2011 (amounts in thousands).

The largest component 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

	2012	2011	% Change
Total current assets	\$ 271,231	\$ 311,710	-12.99%
Capital assets, net of accumulated depreciation	8,109,900	8,111,197	-0.02%
Other non-current assets	2,050	2,331	-12.05%
Total assets	8,383,181	8,425,238	-0.50%
Total current liabilities	300,105	245,763	22.11%
Long term liabilities	378,118	425,875	-11.21%
Total liabilities	678,223	671,638	0.98%
Invested in capital assets, net of related debt	7,712,955	7,654,175	0.77%
Restricted	17,350	14,584	18.97%
Unrestricted	(25,347)	84,841	-129.88%
Total net assets	\$ 7,704,958	\$ 7,753,600	-0.63%

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

Condensed Statement of Activities

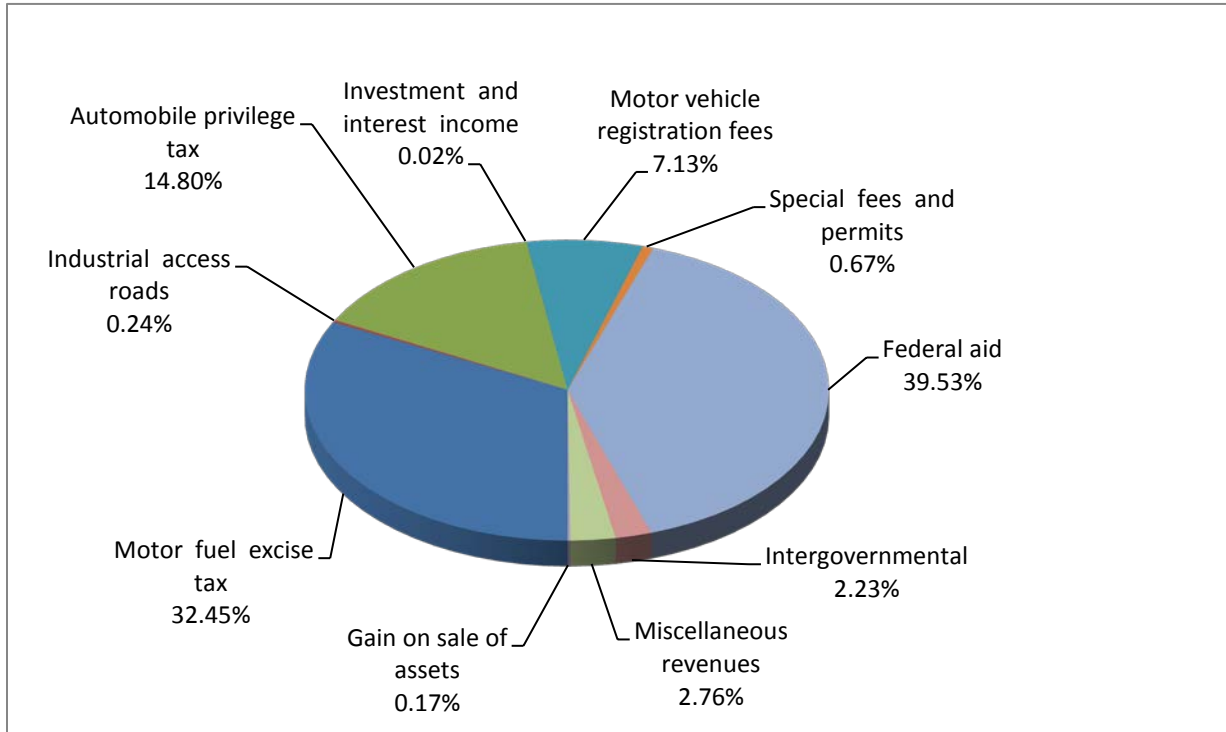
The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Revenues			
Taxes	\$ 594,871	\$ 574,949	3.47%
Investment and interest income	209	517	-59.57%
Intergovernmental	28,078	14,171	98.14%
Miscellaneous revenues	34,695	31,945	8.61%
Gain on sale of assets	2,149	1,673	28.45%
Total general revenues	<u>660,002</u>	<u>623,255</u>	5.90%
Capital grants and contributions	500,814	537,602	-6.84%
Charges for services	98,121	98,558	-0.44%
Total program revenues	<u>598,935</u>	<u>636,160</u>	-5.85%
Total revenues	<u>1,258,937</u>	<u>1,259,415</u>	-0.04%
Expenses			
Road maintenance	491,044	433,905	13.17%
Other road operations	672,251	448,650	49.84%
General and administration	123,397	126,704	-2.61%
Interest on long-term debt	17,136	20,041	-14.50%
Unallocated depreciation	3,751	4,275	-12.26%
Total expenses	<u>1,307,579</u>	<u>1,033,575</u>	26.51%
Change in net assets	(48,642)	225,840	-121.54%
Net assets, beginning	<u>7,753,600</u>	<u>7,527,760</u>	3.00%
Net assets, ending	<u>\$ 7,704,958</u>	<u>\$ 7,753,600</u>	-0.63%

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 decreased by \$49 million or .63 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 decreased by approximately \$478 thousand. Total tax revenues increased by approximately \$20 million. Federal aid revenue decreased by approximately \$37 million or 6.88%. The following summarizes revenues for the years ended June 30, 2012 and June 30, 2011 (amounts in thousands):

	2012	2011	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 408,571	\$ 406,347	\$ 2,224	0.55%
Industrial access roads	3,000	3,000	-	0.00%
Automobile privilege tax	186,300	168,602	17,698	10.50%
Motor vehicle registration fees	89,741	91,475	(1,734)	-1.90%
Special fees and permits	8,380	7,083	1,297	18.31%
Federal aid	497,814	534,602	(36,788)	-6.88%
Investment and interest income	209	517	(308)	-59.57%
Intergovernmental	28,078	14,171	13,907	98.14%
Miscellaneous revenues	34,695	31,945	2,750	8.61%
Gain on sale of assets	2,149	1,673	476	28.45%
	<u>\$ 1,258,937</u>	<u>\$ 1,259,415</u>	<u>\$ (478)</u>	-0.04%

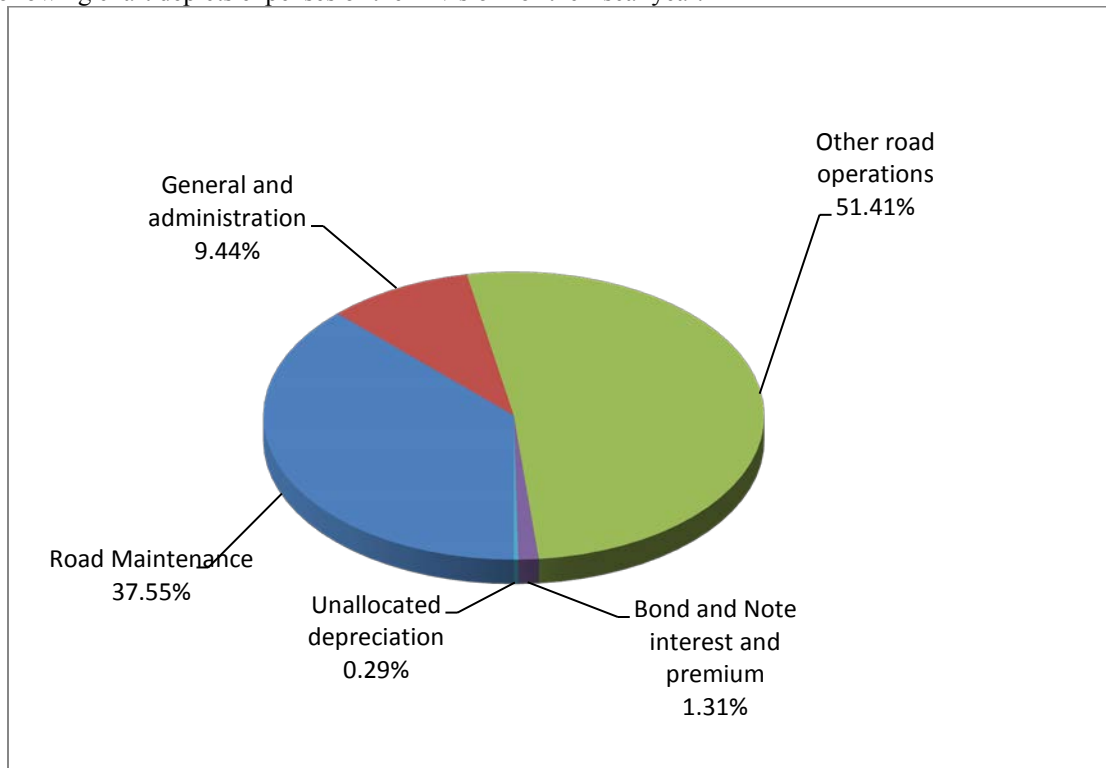
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 2012 tax collections reported on a cash basis grew by \$2.3 million (0.35%) over FY 2011 tax collections. Motor fuel tax collections were \$6.3 million (1.67%) above estimates and \$10.7 million (2.69%) higher than FY 2011 collections. Privilege tax collections were \$35.1 million (23.28%) above estimates and \$13.8 million (8.03%) above FY 2011 collections. Registration fee collections were \$1.7 million (1.90%) above estimates and \$512 thousand (0.56%) below FY 2011 collections. In FY 2013, 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 2012 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.



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

Total expenses increased by approximately \$274 million or 26.51%. The following summarizes expenditures for the years ended June 30, 2012 and June 30, 2011 (amounts in thousands):

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Road maintenance	\$ 491,044	\$ 433,905	\$ 57,139	13.17%
Other road operations	672,251	448,650	223,601	49.84%
General and administration	123,397	126,704	(3,307)	-2.61%
Interest on long-term debt	17,136	20,041	(2,905)	-14.50%
Unallocated depreciation	3,751	4,275	(524)	-12.26%
	<u>\$ 1,307,579</u>	<u>\$ 1,033,575</u>	<u>\$ 274,004</u>	26.51%

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 2012, 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 FUND

At June 30, 2012, the Division reported fund balances of approximately \$40 million. Of this total amount (\$23) million constitutes unassigned fund balance while \$17 million is restricted for various purposes. The remainder of fund balance is nonspendable and is not available for spending because it is comprised of inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2012 fiscal year, unassigned fund balance of the General Fund was (\$23) million and nonspendable fund balance was \$46 million while the restricted fund balance was \$17 million. The total General Fund balance decreased \$104 million during the fiscal year primarily due to increased expenditures for road construction, maintenance and rehabilitation projects.

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

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 2018, 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 2018. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Motor fuel excise and wholesale fuel	\$ 408,571	\$ 406,347	\$ 2,224	0.55%
Motor vehicle registration	89,741	91,475	(1,734)	-1.90%
Privilege tax	<u>186,300</u>	<u>168,602</u>	<u>17,698</u>	10.50%
	<u>\$ 684,612</u>	<u>\$ 666,424</u>	<u>\$ 18,188</u>	2.73%

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 changed on January 1, 2012, when the rate rose from 11.7 cents to 12.9 cents per invoiced gallon.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2012 was \$449.0 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 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):

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement-Budgeted funds	\$ 467,532	\$ 497,783	\$ (30,251)	-6.08%
Federal reimbursement-Surface Transportation	27,591	27,577	14	0.05%
Federal reimbursement-Emergency funds	<u>2,691</u>	<u>9,242</u>	<u>(6,551)</u>	-70.88%
	<u>\$ 497,814</u>	<u>\$ 534,602</u>	<u>\$ (36,788)</u>	-6.88%

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

It is anticipated that state revenues will basically remain unchanged in FY 2013. 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 approved FY 2013 budget, exclusive of ARRA projects, which are 100% federally-reimbursed is \$1.16 billion. 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.

After ten extensions of SAFETEA-LU, a new twenty-seven month federal highway funding authorization has been enacted and designated as Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 provides a simple extension of the current SAFETEA-LU programs and all related provisions through the end of FFY 2012. The effective date for most highway provisions in MAP-21, both funding and changes to policy, is October 1, 2012. West Virginia's FFY 2013 apportionment will be \$423.3 million, and its FFY 2014 apportionment will be \$426.9 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012 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 \$314 million.

As the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$291 million in depreciation of the infrastructure. The Division expended \$313 million dollars during the year ended June 30, 2012 for additions to capital assets. Of this amount, \$282 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 \$427 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy and Grant Counties, completion of the Mon/Fayette Expressway in July 2011, 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, upgrade of existing 2-lane sections of US Route 35 in Putnam and Mason Counties 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, 2012, the Division had \$271 million in outstanding bonds. The amount outstanding decreased by \$35 million (11.41%) due to net principal payments.

The Division has also been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Division issued revenue notes in the amount of \$76 million in October 2006, \$33 million in April 2007, and \$77 million during fiscal year 2010. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2012, the Division had \$100 million in outstanding revenue notes. The amount decreased by \$22 million (18.26%) 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: AA+ Moody's: Aa1 S&P: AA	\$ 1,565
Safe Roads 05A - Bonds maturing on or before June 1, 2025	Insured by FSA	Fitch: AA+ Moody's: Aa1 S&P: AA	233,895
Safe Roads 10A - Bonds maturing on or before June 1, 2023.	Insured by FSA	Fitch: AA+ Moody's: Aa1 S&P: AA	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	Moody's: Aa2 S&P: AA	37,545
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	Moody's: Aa2 S&P: AA	16,270
Surface Transportation Improvements Special Obligation Notes (GARVEE 2009A) – Notes Maturing on or before June 1, 2016	Insured by FSA	Moody's: Aa2 S&P: AA	46,555
			\$ 370,965

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, 2012
(amounts expressed in thousands)

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 63,450
Accounts receivable, net	84,676
Taxes receivable	74,865
Due from other State of West Virginia agencies	2,475
Inventories	45,765
Total current assets	271,231
Non-current assets	
Capital assets not being depreciated	
Land - non-infrastructure	23,025
Land - infrastructure	986,302
Construction in progress	795,373
Capital assets net of accumulated depreciation	
Land improvements	7,643
Buildings	87,339
Furniture and fixtures	996
Rolling stock	70,078
Scientific equipment	386
Shop equipment	40
Roads	3,957,162
Bridges	2,181,556
Total capital assets	8,109,900
Other non-current assets	2,050
Total assets	8,383,181
LIABILITIES	
Current liabilities	
Accounts payable	85,082
Retainages payable	4,009
Accrued payroll and related liabilities	20,450
Deferred revenue	248
Other Post Employment Benefits Liability	118,159
Due to other State of West Virginia agencies	3,692
Accrued interest payable	2,673
Current maturities of long term obligations	65,792
Total current liabilities	300,105
Non-current liabilities	
Claims and judgements	16,100
Compensated absences	16,418
Bonds and notes	345,600
Total non-current liabilities	378,118
Total liabilities	678,223
NET ASSETS	
Invested in capital assets, net of related debt	7,712,955
Restricted	
Coal Resource	4,739
Waste Tire	2,371
Industrial Access	10,240
Unrestricted	(25,347)
Total net assets	\$ 7,704,958

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, 2012
(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	\$ 380,283	\$ -	\$ -	\$ (380,283)
Contract paving & secondary roads	66,721	-	-	(66,721)
Small bridge repair & replacement	22,794	-	-	(22,794)
Litter control program	1,682	-	-	(1,682)
Depreciation	19,564	-	-	(19,564)
Other road operations				
Interstate highways	105,899	-	109,422	3,523
Appalachian highways	51,584	-	82,989	31,405
Other federal aid programs	212,896	-	305,403	92,507
Non federal aid improvements	9,561	-	-	(9,561)
Industrial access roads	1,583	-	3,000	1,417
Depreciation	290,728	-	-	(290,728)
General and administration				
Support and administrative operations	81,441	8,380	-	(73,061)
Claims	6,540	-	-	(6,540)
Costs associated with DMV	33,838	89,741	-	55,903
Costs associated with OAH	1,578	-	-	(1,578)
Interest on long-term debt	17,136	-	-	(17,136)
Unallocated depreciation	3,751	-	-	(3,751)
	<u>\$ 1,307,579</u>	<u>\$ 98,121</u>	<u>\$ 500,814</u>	<u>(708,644)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				408,571
Automobile privilege				186,300
Investment and interest income				209
Intergovernmental				28,078
Miscellaneous revenues				34,695
Gain on Sale of Assets				2,149
Total general revenues				<u>660,002</u>
Change in net assets				(48,642)
Net assets, beginning				7,753,600
Net assets, ending				<u>\$ 7,704,958</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 BALANCE SHEET - GOVERNMENTAL FUND
 JUNE 30, 2012
 (amounts expressed in thousands)

	State Road (General)
ASSETS	
Assets	
Cash and cash equivalents	\$ 63,450
Receivables	84,676
Taxes receivable	74,865
Due from other State of West Virginia agencies	2,475
Inventories	45,765
Total assets	\$ 271,231
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 85,082
Retainages payable	4,009
Accrued payroll and related liabilities	20,450
Deferred revenue	248
Other post employment benefits	118,159
Due to other State of West Virginia agencies	3,692
Total liabilities	231,640
Fund balances	
Nonspendable	
Inventories	45,765
Restricted	
Construction and maintenance of industrial access roads	10,240
Construction and maintenance of coal resource roads	4,739
Waste tire clean up and disposal	2,371
Unassigned	(23,524)
Total fund balances	39,591
Total liabilities and fund balances	\$ 271,231

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012
 (amounts expressed in thousands)

Total fund balance - governmental fund \$ 39,591

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	\$ 23,025	
Land - infrastructure	986,302	
Construction in progress	795,373	
Capital assets net of accumulated depreciation		
Land improvements	7,643	
Buildings	87,339	
Furniture and fixtures	996	
Rolling stock	70,078	
Scientific equipment	386	
Shop equipment	40	
Roads	3,957,162	
Bridges	2,181,556	8,109,900

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. 2,050

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	(2,673)	
*****Erclo u'cpf 'lwf i o gpvu	(18,194)	
*****Eqo r gpucv'gf 'cdugpegu	(28,771)	
*****I gpgtcn'qdrki c'kqp'dqpf u'cpf 't'gxgpwg'p'qvgu"	(396,945)	(446,583)

Net assets of governmental activities \$ 7,704,958

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

	State Road (General)
Revenues	
Taxes	
Gasoline and motor carrier	\$ 408,571
Automobile privilege	186,300
Industrial access roads	3,000
License, fees and permits	
Motor vehicle registrations and licenses	89,741
Special fees and permits	8,380
Federal aid	
Interstate highways	109,422
Appalachian highways	82,989
Other federal aid programs	305,403
Investment and interest income, net of arbitrage rebate	209
Intergovernmental	28,078
Miscellaneous revenues	34,695
Total revenues	1,256,788
Expenditures	
Current	
Road maintenance	
Expressway, trunkline and feeder, state and local services	380,301
Contract paving and secondary roads	66,721
Small bridge repair and replacement	39,731
Litter control program	1,682
Support and administrative operations	112,652
Division of Motor Vehicles operations	33,838
Office of Administration Hearings operations	1,578
Claims	2,327
Capital outlay and other road operations	
Road construction and other road operations	
Interstate highways	129,221
Appalachian highways	108,798
Other federal aid programs	387,429
Nonfederal aid construction and road operations	19,908
Industrial access roads	1,583
Debt service	
Debt Service Fees	3
Principal	57,290
Interest	20,078
Total expenditures	1,363,140
Excess (deficiency) of revenues over expenditures	(106,352)
Other financing sources (uses)	
Proceeds of sale of assets	2,446
Net change in fund balances	(103,906)
Fund balances, beginning of year	143,497
Fund balances, end of year	\$ 39,591

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012
 (amounts expressed in thousands)

Net change in fund balance - governmental fund \$ (103,906)

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 depreciation of (\$314,043) exceeded capital outlays \$313,043 in the current period. (1,000)

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. (296)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets. 57,290

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase in claims of (\$4,214) and the amortization of bond issue cost of (\$282), exceed the decrease in interest payable of \$438, compensated absences of \$541 and the accretion of bond premium of \$2,787. (730)

Change in net assets of governmental activities \$ (48,642)

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, 2012
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 380,700	\$ -	\$ 380,700	\$ 387,041	\$ 6,341
Automobile privilege	151,114	-	151,114	186,293	35,179
Motor vehicle registrations and licenses	90,668	-	90,668	92,269	1,601
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,000)	-
Federal aid	493,400	45,000	538,400	449,092	(89,308)
Miscellaneous revenues	39,110	15,000	54,110	45,784	(8,326)
	<u>1,151,992</u>	<u>60,000</u>	<u>1,211,992</u>	<u>1,157,479</u>	<u>(54,513)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	150,000	10,000	160,000	128,426	31,574
Appalachian highways	115,000	(5,000)	110,000	87,427	22,573
Other federal aid programs	300,700	58,000	358,700	358,640	60
Nonfederal aid construction	15,000	3,000	18,000	17,230	770
Federal economic stimulus	20,000	-	20,000	18,331	1,669
Road maintenance					
Maintenance	326,096	61,000	387,096	382,568	4,528
Contract paving and secondary roads	45,000	15,000	60,000	60,000	-
Small bridge repair and replacement	30,000	8,000	38,000	35,694	2,306
Litter control program	1,680	-	1,680	1,680	-
Support and administrative operations					
General operations	53,849	3,000	56,849	47,661	9,188
Equipment revolving	15,000	2,500	17,500	12,571	4,929
Inventory revolving	4,000	-	4,000	(482)	4,482
Debt service	49,900	-	49,900	49,755	145
Division of Motor Vehicles operations	40,579	-	40,579	33,469	7,110
Office of Administrative Hearings operations	1,952	-	1,952	1,700	252
Claims - DOH and DMV	2,391	-	2,391	2,327	64
	<u>1,171,147</u>	<u>155,500</u>	<u>1,326,647</u>	<u>1,236,997</u>	<u>89,650</u>
Excess (deficiency) of revenues over expenditures	(19,155)	(95,500)	(114,655)	(79,518)	35,137
Fund balance, beginning of year	<u>125,893</u>	<u>-</u>	<u>125,893</u>	<u>125,893</u>	<u>-</u>
Fund balance, end of year	<u>\$ 106,738</u>	<u>\$ (95,500)</u>	<u>\$ 11,238</u>	<u>\$ 46,375</u>	<u>\$ 35,137</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, 2012
(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, 2012 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, 2012
(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 \$17,350 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, 2012, 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, 2012
(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 fund that is presented in the accompanying financial statements:

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

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, 2012 generally are a result of these routine payments and transfers. At June 30, 2012 there was no interfund activity.

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, 2012
 (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, 2012, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$ (79,518)
Basis of accounting differences (budgetary to GAAP)	(21,273)
Unbudgeted funds	<u>(5,561)</u>
Deficiency of revenues over expenditures - GAAP basis	<u>\$ (106,352)</u>

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 “Nonspendable” 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
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(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.

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

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

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

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

ACCOUNTS AND TAXES RECEIVABLE - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for 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
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012
(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
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(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, 2012.

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, 2012.

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 first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 early adoption of this statement has no impact on the June 30, 2012 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 early adoption of this statement has no impact on the June 30, 2012 financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 AICPA 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 early adoption of this statement has no impact on the June 30, 2012 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. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. This statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Division has not yet determined the effect that the adoption of GASB Statement No. 65 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No.10 and No. 62*, effective for fiscal years beginning after December 15, 2012. This statement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The Division has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*, effective for fiscal years beginning after June 15, 2013. This statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The Division has not yet determined the effect that the adoption of GASB Statement No. 67 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Division has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
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 (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	\$ 20,143	\$ 20,143
Cash on deposit with State Treasurer in Debt Service Fund	8	8
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	37,667	37,667
Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool	5,622	5,622
Cash in transit	10	10
	\$ 63,450	\$ 63,450

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. “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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 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	\$ 853,470	30.62%
Corporate bonds and notes	Aa2	AA-	15,000	.54
	Aa3	AA-	13,000	.47
	Aa3	A+	8,000	.29
Total corporate bonds and notes			<u>36,000</u>	<u>1.30</u>
U.S. agency bonds	Aaa	AA+	189,691	6.80
U.S. Treasury notes*	Aaa	AA+	330,865	11.87
U.S. Treasury bills*	Aaa	AA+	237,978	8.54
Negotiable Certificates of deposit	P-1	A-1	110,000	3.95
U.S. agency discount notes	P-1	A-1+	738,706	26.50
Money market funds	Aaa	AAAm	200,054	7.18
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	90,204	3.24
			<u>\$ 2,786,968</u>	<u>100.00%</u>

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

At June 30, 2012, the WV Money Market Pool investments had a total carrying value of \$2,786,968 of which the Division's ownership represents 1.35%.

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):

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012
(amounts expressed in thousands)

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate asset backed securities	Aaa	AAA	\$ 95,628	18.99 %
	Aaa	NR*	38,524	7.64
	NR	AA+	3,900	0.77
	** B1	CCC	896	0.18
	** B3	BB	311	0.06
	** B3	BBB-	53	0.01
	** B3	CCC	280	0.06
	** Caa2	CCC	186	0.04
	** Caa3	CCC	243	0.05
	** Caa3	D	26	0.01
	** Ca	CCC	586	0.12
	NR	NR	3,786	0.75
Total corporate as set backed securities			144,419	28.68
Corporate bonds and notes	Aa2	AA+	9,025	1.79
	Aa3	AA-	15,666	3.11
	Aa3	A	23,032	4.57
	A1	AA	12,145	2.41
	A1	A+	30,684	6.09
	A2	A	39,064	7.76
	A3	BBB+	7,755	1.54
	A3	A-	3,006	0.6
	Baa1	A-	4,162	0.83
	Baa2		6,709	1.33
Total corporate bonds and notes			151,248	30.03
U.S. agency bonds	Aaa	AA+	45,024	8.94
U.S. Treasury notes***	Aaa	AA+	44,251	8.79
U.S. agency mortgage backed securities****	Aaa	AA+	77,065	15.30
Money market funds	Aaa	AAAm	41,610	8.26
			<u>\$ 503,617</u>	<u>100.00 %</u>

* NR = Not Rated

** These securities were not in compliance with BTI Investment Policy at June 30, 2012. 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, 2012, the Division's ownership represents 1.12% 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	\$ 90,204	3
U.S. Treasury notes U.S.	330,865	122
Treasury bills	237,978	37
Commercial paper	853,470	35
Certificates of deposit	110,000	10
U.S. agency discount notes	738,706	44
Corporate bonds and notes	36,000	48
U.S. agency bonds/notes	189,691	68
Money market funds	200,054	1
	<u>\$ 2,786,968</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	\$ 44,251	366
Corporate notes	151,248	242
Corporate asset backed securities	144,419	250
U.S. agency bonds /notes	45,024	23
U.S. agency mortgage backed securities	77,065	13
Money market fund	41,610	1
	\$ 503,617	180

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. 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.

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.

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NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consisted of the following:

Federal aid billed and not paid	\$	5,226
Federal aid earned but not billed		<u>67,911</u>
Total federal aid receivable		73,137
Other receivables		<u>12,031</u>
Combined total receivables		85,168
Less: allowance for uncollectibles		<u>(492)</u>
 Net accounts receivable	 \$	 <u><u>84,676</u></u>

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

NOTE 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2012 consisted of the following:

Automobile privilege taxes	\$	16,468
Motor fuel excise taxes		55,532
Registration fees		<u>2,865</u>
 Total taxes receivable	 \$	 <u><u>74,865</u></u>

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

Amounts due from other State of West Virginia agencies at June 30, 2012 consisted of the following:

The Department of Motor Vehicles	\$ 1,960
Other agencies	<u>515</u>
Total amounts due from other State of West Virginia agencies	<u><u>\$ 2,475</u></u>

Amounts due to other State of West Virginia agencies at June 30, 2012 consisted of the following:

Public Employee's Insurance Agency	\$ 1,920
Public Employee's Retirement	1,677
Other agencies	<u>95</u>
Total amounts due to other State of West Virginia agencies	<u><u>\$ 3,692</u></u>

NOTE 6: INVENTORIES

Inventories at June 30, 2012 consisted of the following:

Materials and supplies	\$ 32,740
Equipment repair parts	9,341
Gas and lubrication supplies	<u>3,684</u>
Total inventories	<u><u>\$ 45,765</u></u>

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NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Capital assets not being depreciated:				
Land - non infrastructure	\$ 19,680	\$ 3,345	\$ -	\$ 23,025
Land - infrastructure	956,518	29,784	-	986,302
Construction-in-progress - buildings	14,487	7,617	11,181	10,923
Construction-in-progress - land improvements	402	1,352	796	958
Construction-in-progress - roads	756,402	129,813	300,964	585,251
Construction-in-progress - bridges	201,549	122,773	126,081	198,241
	<u>1,949,038</u>	<u>294,684</u>	<u>439,022</u>	<u>1,804,700</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings	124,999	11,181	135	136,045
Furniture and fixtures	4,637	64	213	4,488
Land improvements - non infrastructure	11,365	796	-	12,161
Rolling stock	241,189	18,284	15,246	244,227
Shop equipment	3,057	-	-	3,057
Scientific equipment	2,873	11	-	2,884
Infrastructure - roads	8,128,408	300,964	-	8,429,372
Infrastructure - bridges	2,602,262	126,081	-	2,728,343
	<u>11,118,790</u>	<u>457,381</u>	<u>15,594</u>	<u>11,560,577</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings	45,830	2,985	109	48,706
Furniture and fixtures	3,498	198	204	3,492
Land improvements - non infrastructure	3,950	568	-	4,518
Rolling stock	169,752	19,381	14,984	174,149
Shop equipment	3,004	13	-	3,017
Scientific equipment	2,328	170	-	2,498
Infrastructure - roads	4,227,535	244,675	-	4,472,210
Infrastructure - bridges	500,734	46,053	-	546,787
	<u>4,956,631</u>	<u>314,043</u>	<u>15,297</u>	<u>5,255,377</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>6,162,159</u>	<u>143,338</u>	<u>297</u>	<u>6,305,200</u>
Governmental activities capital assets, net	<u>\$ 8,111,197</u>	<u>\$ 438,022</u>	<u>\$ 439,319</u>	<u>\$ 8,109,900</u>

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NOTE 7: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$310,292 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$3,751 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	\$ 2,985
Furniture and fixtures	198
Land improvements	568
Total unallocated	3,751
Rolling stock	19,381
Shop equipment	13
Scientific equipment	170
Total road maintenance	19,564
Infrastructure - roads	244,675
Infrastructure - bridges	46,053
Total other road operations	290,728
Total depreciation expense	\$ 314,043

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, 2012, retainages payable included \$0 that was on deposit at BTI for construction contractors.

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NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2012, 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	2001	3.50% - 5.50%	06/01/2013	\$ 13,890	\$ -	\$ 12,325	\$ 1,565
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	256,435	-	22,540	233,895
Safe road bonds	2010	4.00%	06/01/2023	35,135	-	-	35,135
Total general obligation bonds				<u>305,460</u>	<u>-</u>	<u>34,865</u>	<u>270,595</u>
Bond premium				<u>23,670</u>	<u>-</u>	<u>1,768</u>	<u>21,902</u>
Total general obligation bonds payable net of premium				<u>329,130</u>	<u>-</u>	<u>36,633</u>	<u>292,497</u>
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	45,915	-	8,370	37,545
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	19,900	-	3,630	16,270
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	56,980	-	10,425	46,555
Total revenue notes payable				<u>122,795</u>	<u>-</u>	<u>22,425</u>	<u>100,370</u>
Bond premium				<u>5,097</u>	<u>-</u>	<u>1,019</u>	<u>4,078</u>
Total general obligation notes payable net of premium				<u>127,892</u>	<u>-</u>	<u>23,444</u>	<u>104,448</u>
Claims and judgments				13,981	4,213	-	18,194
Compensated absences				<u>29,312</u>	<u>426</u>	<u>967</u>	<u>28,771</u>
Total long-term obligations				<u>\$ 500,315</u>	<u>\$ 4,639</u>	<u>\$ 61,044</u>	<u>\$ 443,910</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 \$20,078 for the year ended June 30, 2012. 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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018- 2022</u>	<u>2023- 2025</u>	<u>Total</u>
General obligation bonds payable from tax revenue:								
Safe road bonds	\$ 38,403	\$ 36,757	\$ 36,765	\$ 36,765	\$ 23,301	\$ 116,108	\$ 70,231	\$ 358,330
Less: interest	<u>13,173</u>	<u>11,917</u>	<u>10,675</u>	<u>9,370</u>	<u>8,001</u>	<u>28,178</u>	<u>6,421</u>	<u>87,735</u>
Total principal	25,230	24,840	26,090	27,395	15,300	87,930	63,810	270,595
Bond premium	<u>1,726</u>	<u>1,721</u>	<u>1,721</u>	<u>1,721</u>	<u>1,721</u>	<u>8,604</u>	<u>4,688</u>	<u>21,902</u>
Total principal and bond premium	<u>\$ 26,956</u>	<u>\$ 26,561</u>	<u>\$ 27,811</u>	<u>\$ 29,116</u>	<u>\$ 17,021</u>	<u>\$ 96,534</u>	<u>\$ 68,498</u>	<u>\$ 292,497</u>
Revenue notes payable from federal aid revenue:								
Surface transportation special								
Obligation notes	\$ 27,547	\$ 27,519	\$ 27,504	\$ 27,499	\$ -	\$ -	\$ -	\$ 110,069
Less: interest	<u>4,177</u>	<u>3,044</u>	<u>1,854</u>	<u>624</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,699</u>
Total principal	23,370	24,475	25,650	26,875	-	-	-	100,370
Note premium	<u>1,019</u>	<u>1,019</u>	<u>1,020</u>	<u>1,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,078</u>
Total principal and note premium	<u>\$ 24,389</u>	<u>\$ 25,494</u>	<u>\$ 26,670</u>	<u>\$ 27,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,448</u>

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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	\$ 12,353	\$ 2,094	\$ 51,345	\$ 65,792
Long-term liabilities	<u>16,418</u>	<u>16,100</u>	<u>345,600</u>	<u>378,118</u>
	<u>\$ 28,771</u>	<u>\$ 18,194</u>	<u>\$ 396,945</u>	<u>\$ 443,910</u>

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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>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Estimated claims liability, July 1	\$ 13,981	\$ 18,485	\$ 7,809
Additions for claims incurred during the year	2,094	2,391	1,564
Changes in estimates for claims of prior periods	4,510	(5,331)	9,621
Payments on claims	<u>(2,391)</u>	<u>(1,564)</u>	<u>(509)</u>
Estimated claims liability, June 30	<u>\$ 18,194</u>	<u>\$ 13,981</u>	<u>\$ 18,485</u>

At June 30, 2012, approximately \$13,000 of tort claims and \$3,100 in environmental claims were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$16,100 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 \$2,094. 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, 2013 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, 2012 the Division incurred payroll related expenditures of approximately \$25,814 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$26,024 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 \$583,291 at June 30, 2012.

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, 2012, there were approximately 439 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.

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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 19% of annual covered payroll, including the Division's contribution of 14.5% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2012, 2011, and 2010 were \$26,024, \$22,213, and \$18,040, 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 post employment 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 sixty one dollars per employee per month for the year ending June 30, 2012. The Division's ARC was \$33,557, \$39,946 and \$30,555 and the Division has paid premiums of \$8,541, \$8,230 and \$ 7,516 which represent 25.4%, 20.6% and 24.6% of the ARC, respectively, for the years ending June 30, 2012, 2011, and 2010. At June 30, 2012, the liability related to OPEB costs was \$118,159.

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(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.

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

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



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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.

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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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental Activities				
Invested in capital assets, net of related debt	\$ 7,712,955	\$ 7,654,175	\$ 7,358,147	\$ 7,144,763
Restricted	17,350	14,584	17,035	18,119
Unrestricted	(25,347)	84,841	152,578	189,225
Total governmental activities net assets	<u>\$ 7,704,958</u>	<u>\$ 7,753,600</u>	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>

Year Ended June 30

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$	6,886,996	\$ 6,592,210	\$ 6,475,338	\$ 6,193,029	\$ 5,980,261	\$ 5,756,415
	17,892	13,975	8,512	10,843	-	-
	287,611	296,681	138,096	123,684	111,234	83,768
\$	<u>7,192,499</u>	<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>

**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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues				
Governmental activities:				
General Revenues				
Motor fuel excise tax	\$ 408,571	\$ 406,347	\$ 393,557	\$ 391,903
Automobile privilege tax	186,300	168,602	147,466	141,930
Investment and interest income	209	517	(457)	1,919
Payments from primary government	28,078	14,171	41,318	27,924
Miscellaneous revenues	34,695	31,945	25,012	28,647
Gain on sale of assets	2,149	1,673	-	-
Total General Revenues	660,002	623,255	606,896	592,323
Program Revenues				
Capital grants and contributions:				
Federal aid	497,814	534,602	532,020	460,780
Industrial access roads	3,000	3,000	3,000	3,010
Charges for services:				
Motor vehicle registration fees	89,741	91,475	87,600	87,255
Special fees and permits	8,380	7,083	5,793	5,958
Total Program Revenues	598,935	636,160	628,413	557,003
Total governmental revenues	1,258,937	1,259,415	1,235,309	1,149,326
Expenses				
Governmental activities:				
Road maintenance				
Expressway, trunkline & feeder & SLS	380,283	334,484	319,219	306,686
Contract paving & secondary roads	66,721	65,809	62,542	108,779
Small bridge repair & replacement	22,794	12,199	10,416	29,880
Litter control program	1,682	1,699	1,688	1,692
Depreciation	19,564	19,714	17,951	17,046
Other road operations				
Interstate highways	105,899	12,497	86,148	39,292
Appalachian highways	51,584	4,462	5,482	7,567
Other federal aid programs	212,896	142,964	129,913	87,618
Non federal aid improvements	9,561	2,760	5,500	465
Industrial Access Roads	1,583	355	3,121	2,776
Depreciation	290,728	285,612	292,602	287,969
General and administration				
Support and administrative operations	81,441	95,358	55,956	47,692
Claims	6,540	(2,940)	11,172	(4,196)
Costs associated with DMV	33,838	33,222	31,990	30,358
Costs associated with OAH	1,578	1,064	-	-
Interest on long-term debt	17,136	20,041	22,514	22,730
Unallocated depreciation	3,751	4,275	3,442	3,364
Total governmental expenses	1,307,579	1,033,575	1,059,656	989,718
Change in net assets	(48,642)	225,840	175,653	159,608
Effect of adoption of accounting principle	-	-	-	-
Net assets, beginning	7,753,600	7,527,760	7,352,107	7,192,499
Net assets, ending	\$ 7,704,958	\$ 7,753,600	\$ 7,527,760	\$ 7,352,107

Year Ended June 30						
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$	395,641	\$ 364,550	\$ 330,538	\$ 320,891	\$ 303,934	\$ 296,842
	169,095	171,429	170,484	178,763	173,225	169,431
	9,691	9,652	4,701	1,906	1,542	3,655
	18,843	-	-	-	-	-
	36,479	37,459	53,255	25,589	15,165	18,793
	-	-	-	-	-	-
	<u>629,749</u>	<u>583,090</u>	<u>558,978</u>	<u>527,149</u>	<u>493,866</u>	<u>488,721</u>
	398,223.00	392,533	429,583	440,579	424,647	407,664
	2,806.00	3,126	3,016	2,351	3,465	1,891
	86,166.00	86,840	87,534	86,466	81,577	85,880
	5,954.00	5,263	4,290	4,554	4,461	3,965
	<u>493,149</u>	<u>487,762</u>	<u>524,423</u>	<u>533,950</u>	<u>514,150</u>	<u>499,400</u>
	<u>1,122,898</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>
	282,337	262,684	236,326	247,711	240,584	237,026
	92,331	42,785	48,345	46,090	36,451	43,417
	17,402	14,002	14,135	12,559	12,022	21,580
	1,684	1,663	1,744	1,688	1,637	1,492
	16,892	17,416	15,925	14,351	11,631	12,406
	11,735	11,514	4,479	16,662	6,256	3,152
	3,276	3,994	4,434	462	2,548	0
	61,495	82,182	92,941	116,383	107,142	83,240
	2,692	9,407	10,257	6,356	12,096	12,688
	2,891	1,407	5,475	1,822	1,967	523
	269,805	257,292	249,288	241,146	234,636	229,928
	50,720	27,108	43,609	66,966	21,302	40,964
	7,308	(3,000)	3,394	(2,504)	2,716	2,461
	28,884	35,250	34,346	34,544	35,145	34,194
	-	-	-	-	-	-
	23,692	22,977	21,283	18,112	26,525	27,434
	3,262	3,251	3,030	2,690	4,046	2,096
	<u>876,406</u>	<u>789,932</u>	<u>789,011</u>	<u>825,038</u>	<u>756,704</u>	<u>752,601</u>
	246,492	280,920	294,390	236,061	251,312	235,520
	43,141	-	-	-	-	-
	6,902,866	6,621,946	6,327,556	6,091,495	5,840,183	5,604,663
\$	<u>7,192,499</u>	<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>

**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			
	2012	2011	2010	2009
Revenues				
Taxes				
Gasoline and motor carrier	\$ 408,571	\$ 406,347	\$ 393,557	\$ 391,903
Automobile privilege	186,300	168,602	147,466	141,930
Industrial access roads	3,000	3,000	3,000	3,010
License, fees and permits				
Motor vehicle registrations and licenses	89,741	91,475	87,600	87,255
Special fees and permits	8,380	7,083	5,793	5,958
Federal aid				
Interstate highways	109,422	112,134	112,435	121,087
Appalachian highways	82,989	63,239	81,840	73,894
Other federal aid programs	305,403	359,229	337,746	265,799
Investment and interest income, net of				
arbitrage rebate	209	517	(457)	1,919
Intergovernmental	28,078	14,171	41,318	27,924
Miscellaneous revenues	34,695	31,945	25,012	28,649
Total Revenues	1,256,788	1,257,742	1,235,310	1,149,328
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder,	380,301	334,608	318,389	312,984
Contract paving and secondary roads	66,721	65,809	62,542	108,779
Small bridge repair and replacement	39,731	23,595	27,638	47,813
Litter control program	1,682	1,699	1,688	1,692
Support and administrative operations	112,652	129,104	96,251	67,340
Division of Motor Vehicles operations	33,838	33,222	31,990	30,358
Office of Administrative Hearings operations	1,578	1,064	-	-
Claims	2,327	1,563	497	724
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	129,221	128,278	125,499	144,799
Appalachian highways	108,798	84,470	102,626	104,017
Other federal aid programs	387,429	444,804	426,980	361,965
Nonfederal aid construction and road op.	19,908	27,717	26,714	33,448
Industrial access roads	1,583	355	3,121	2,776
Debt service				
Debt Service Fees	3	442	4	5
Principal	57,290	52,980	52,435	40,635
Interest	20,078	22,829	25,134	24,110
Total Expenditures	1,363,140	1,352,539	1,301,508	1,281,445
Excess (deficiency) of revenues over expenditures	(106,352)	(94,797)	(66,198)	(132,117)
Other financing sources (uses)				
Proceeds from issuance of debt	-	-	-	80,964
Transfers in	-	-	-	-
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	2,446	2,506	-	-
Total other financing sources (uses)	2,446	2,824	-	80,964
Prior period adjustment	-	-	(14,100)	-
Net change in fund balance	\$ (103,906)	\$ (91,973)	\$ (80,298)	\$ (51,153)
Debt Service as a percentage of noncapital expenditures	7%	10%	10%	9%

Year Ended June 30						
<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	
\$ 395,641	\$ 364,550	\$ 330,538	\$ 320,891	\$ 303,934	\$ 296,842	
169,095	171,429	170,484	178,763	173,225	169,431	
2,806	3,126	3,016	2,351	3,465	1,891	
86,166	86,840	87,534	86,466	81,577	85,880	
5,954	5,263	4,290	4,554	4,461	3,965	
80,203	56,801	53,359	64,114	51,239	44,372	
80,111	93,552	104,228	101,247	126,286	168,789	
237,909	242,180	271,996	275,218	247,122	194,503	
9,692	9,652	4,701	1,906	1,542	3,655	
-	-	-	-	-	-	
36,479	37,459	53,255	25,589	15,165	18,846	
<u>1,104,056</u>	<u>1,070,852</u>	<u>1,083,401</u>	<u>1,061,099</u>	<u>1,008,016</u>	<u>988,174</u>	
283,726	258,720	238,425	247,456	246,648	238,591	
92,331	42,785	48,345	46,090	36,451	43,417	
22,480	17,100	22,099	18,699	19,492	28,749	
1,684	1,663	1,744	1,688	1,637	1,492	
61,962	55,911	75,050	56,242	51,038	57,655	
28,884	34,754	34,346	34,544	35,145	34,194	
-	-	-	-	-	-	
629	144	397	416	561	595	
95,599	70,926	69,406	75,030	59,992	54,733	
110,006	132,747	156,141	125,231	154,471	194,507	
358,353	348,650	354,562	350,464	318,032	262,481	
14,791	20,365	20,825	31,725	41,810	65,658	
2,891	1,407	5,475	1,822	1,967	523	
-	-	-	-	-	-	
38,940	18,150	19,920	28,060	23,070	22,040	
25,803	23,442	23,098	18,941	26,952	27,979	
<u>1,138,079</u>	<u>1,026,764</u>	<u>1,069,833</u>	<u>1,036,408</u>	<u>1,017,266</u>	<u>1,032,614</u>	
(34,023)	44,088	13,568	24,691	(9,250)	(44,440)	
-	112,097	-	-	-	-	
12,931	-	-	15	-	-	
-	-	-	(15)	-	-	
-	-	-	321,405	-	-	
-	-	-	-	-	-	
-	-	-	(321,405)	-	-	
-	-	-	-	-	-	
<u>12,931</u>	<u>112,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
-	-	-	-	-	-	
<u>\$ (21,092)</u>	<u>\$ 156,185</u>	<u>\$ 13,568</u>	<u>\$ 24,691</u>	<u>\$ (9,250)</u>	<u>\$ (44,440)</u>	
11%	8%	8%	8%	9%	10%	

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

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

	Fiscal Year		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Fund			
Nonspendable			
Inventories	\$ 45,765	\$ 38,779	\$ 37,157
Restricted			
Construction and Maintenance of coal resource roads	4,739	3,266	-
Construction and Maintenance of industrial access roads	10,240	8,823	-
Waste tire clean-up	2,371	2,495	-
Unassigned	(23,524)	90,134	180,285
Reserved for inventories	-	-	-
Unreserved	-	-	-
Total General Fund	<u>\$ 39,591</u>	<u>\$ 143,497</u>	<u>\$ 217,442</u>
All Other Governmental Funds			
Restricted, capital projects fund	\$ -	\$ -	\$ 18,028
Reserved, capital projects fund	-	-	-
Total all funds	<u>\$ 39,591</u>	<u>\$ 143,497</u>	<u>\$ 235,470</u>

Fiscal Year						
<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
39,881	33,040	33,259	34,592	31,459	29,462	27,461
218,945	320,030	272,736	197,236	186,801	164,092	143,928
<u>\$ 258,826</u>	<u>\$ 353,070</u>	<u>\$ 305,995</u>	<u>\$ 231,828</u>	<u>\$ 218,260</u>	<u>\$ 193,554</u>	<u>\$ 171,389</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
56,942	13,851	82,018	-	-	15	31,430
<u>\$ 315,768</u>	<u>\$ 366,921</u>	<u>\$ 388,013</u>	<u>\$ 231,828</u>	<u>\$ 218,260</u>	<u>\$ 193,569</u>	<u>\$ 202,819</u>

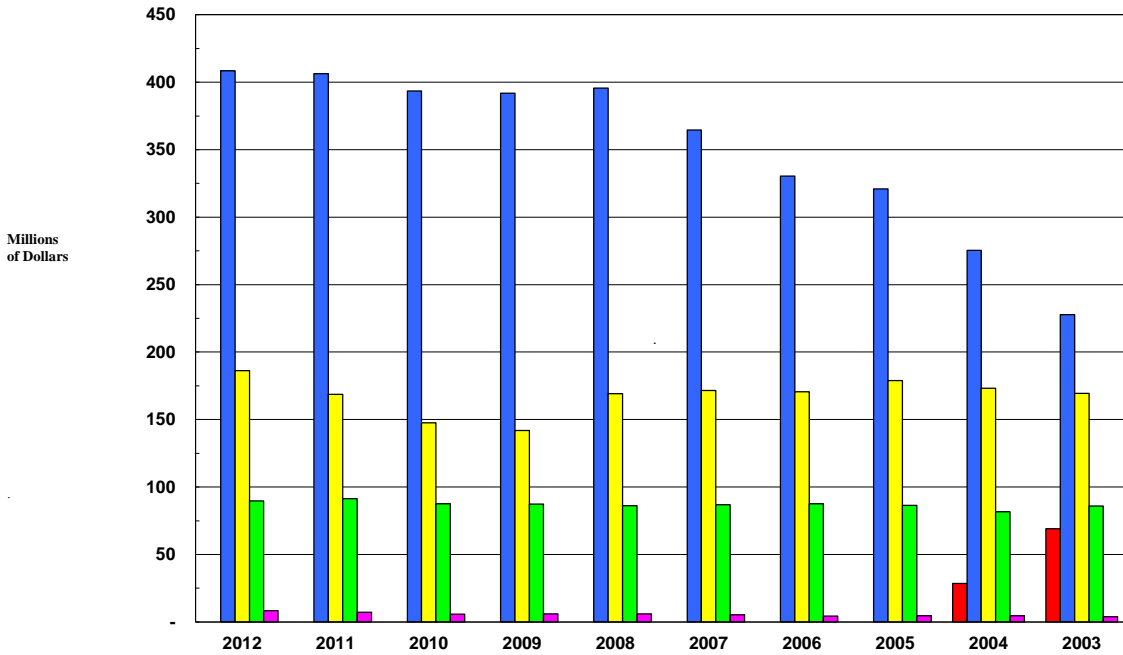


DIVISION OF HIGHWAYS
TAX AND LICENSE FEE REVENUE BY SOURCE⁽¹⁾
 Last Ten Fiscal Years
 (Amount expressed in thousands)

Fiscal Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Gasoline/Motor Carrier	\$408,571	\$406,347	\$393,557	\$391,903	\$395,641	\$364,550	\$330,538	\$320,891	\$275,471	\$227,793
Automobile Privilege	186,300	168,602	147,466	141,930	169,095	171,429	170,484	178,763	173,225	169,431
Registration/License Fees	89,741	91,475	87,600	87,255	86,166	86,840	87,534	86,466	81,577	85,880
Special Fees & Permits	8,380	7,083	5,793	5,958	5,954	5,263	4,290	4,554	4,461	3,965
Motor Fuel	-	-	-	-	-	-	-	-	28,463	69,049
Total	\$692,992	\$673,507	\$634,416	\$627,046	\$656,856	\$628,082	\$592,846	\$590,674	\$563,197	\$556,118




(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.

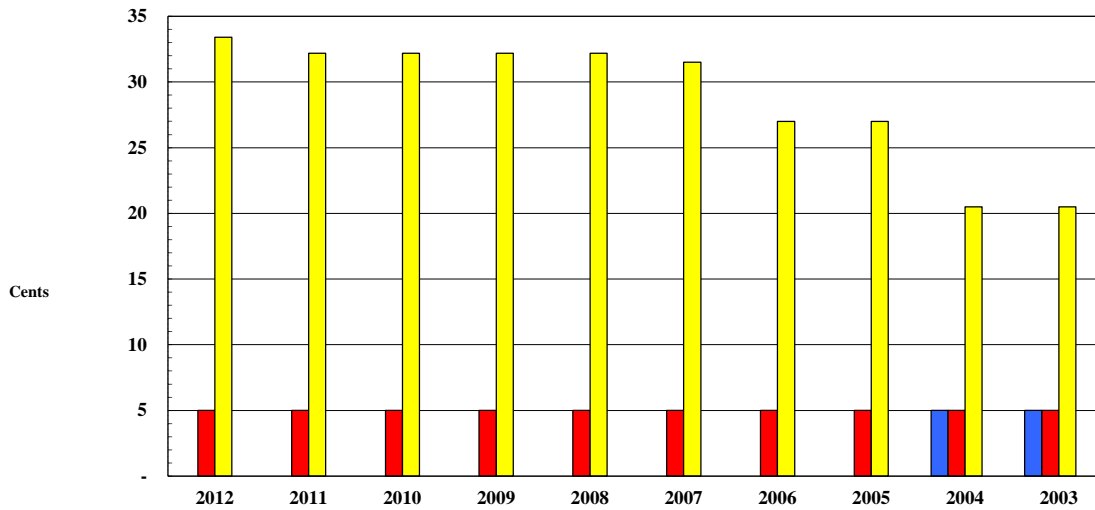




**DIVISION OF HIGHWAYS
FUEL AND PRIVILEGE TAX RATES
Last Ten Fiscal Years**

Fiscal Year		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Excise Motor Fuel(1) (cents per gallon)		-	-	-	-	-	-	-	-	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)		33.4	32.2	32.2	32.2	32.2	31.5	27.0	27.0	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 12.9 cents per invoiced gallon as of January 1, 2012.
- (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	Revenue	Total	Percentage	Per Capita*
	Obligation Bonds	Notes	Primary Government	of Personal Income*	
2012	\$ 270,595	\$ 100,370	\$ 370,965	0.60%	\$ 199.94
2011	305,460	122,795	428,255	0.72%	231.12
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

Government Activities Tax and Fee Income					
Fiscal Year	Gasoline	Automobile	Motor	Special	Total
	and Motor Carrier	Privilege	Vehicle Registrations and Licenses	Fees and Permits	
2012	\$ 408,571	\$ 186,300	\$ 89,741	\$ 8,380	\$ 692,992
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

General Obligation Bond Debt Ratio				
Fiscal Year	General Obligation Bonds	Percentage of Tax and Fee Income	Percentage of Personal Income*	Per Capita*
2012	\$ 270,595	39.05%	0.44%	\$ 145.84
2011	305,460	45.35%	0.51%	164.85
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

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

This schedule has been revised.

**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
2011	1,855,364	\$ 62,178,000	\$ 33,513	8.0%	41.4
2010	1,852,994	59,325,000	31,999	9.1%	41.3
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

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			
	2012	2011	2010	2009
Wal-Mart Associates, Inc.	1	1	1	1
WV United Health System	2	2	2	2
Charleston Area Medical Center, Inc.	3	3	3	3
Kroger	4	4	4	4
Consolidation Coal Company	5	5	6	9
Lowe's Home Centers, Inc.	6	7	7	10
Mylan Pharmaceuticals, Inc	7	6	10	-
Mentor Management, Inc (Mentor Network, The)	8	10	-	-
St. Mary's Medical Center, Inc.	9	8	8	7
American Electric Power	10	9	5	5
Res-Care, Inc.	-	-	9	-
Pilgrim's Pride Corporation of West Virginia	-	-	-	-
Verizon	-	-	-	-
E I DuPont De Nemours & Company	-	-	-	-
ISG Weirton Inc.	-	-	-	-
Allegheny Energy Service Corporation	-	-	-	-
Eldercare Resources Corpotaion	-	-	-	6
CSX/CSX Hotels Inc. (The Greenbrier and railroad)	-	-	-	8

Source: Workforce West Virginia Research, Information and Analysis

Note: Due to confidentiality issues, the number of people employed is not available.

Largest Employer Rank

2008	2007	2006	2005	2004	2003
1	1	1	1	1	1
2	2	2	3	3	2
3	3	3	2	2	3
4	4	4	4	4	4
10	-	8	8	-	-
8	7	7	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9	10	10	-	-	10
6	5	6	6	7	-
-	-	-	-	-	-
-	9	-	-	-	-
-	-	9	9	9	8
-	-	-	7	8	7
-	-	-	10	6	5
-	-	-	-	10	9
7	6	-	-	-	-
5	8	5	5	5	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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Maintenance	3,466	3,547	3,534	3,539
Construction	853	950	927	898
General and administration	520	309	298	306
Total	4,839	4,806	4,759	4,743

Source: Division of Highways Budget Office.

Employees as of June 30

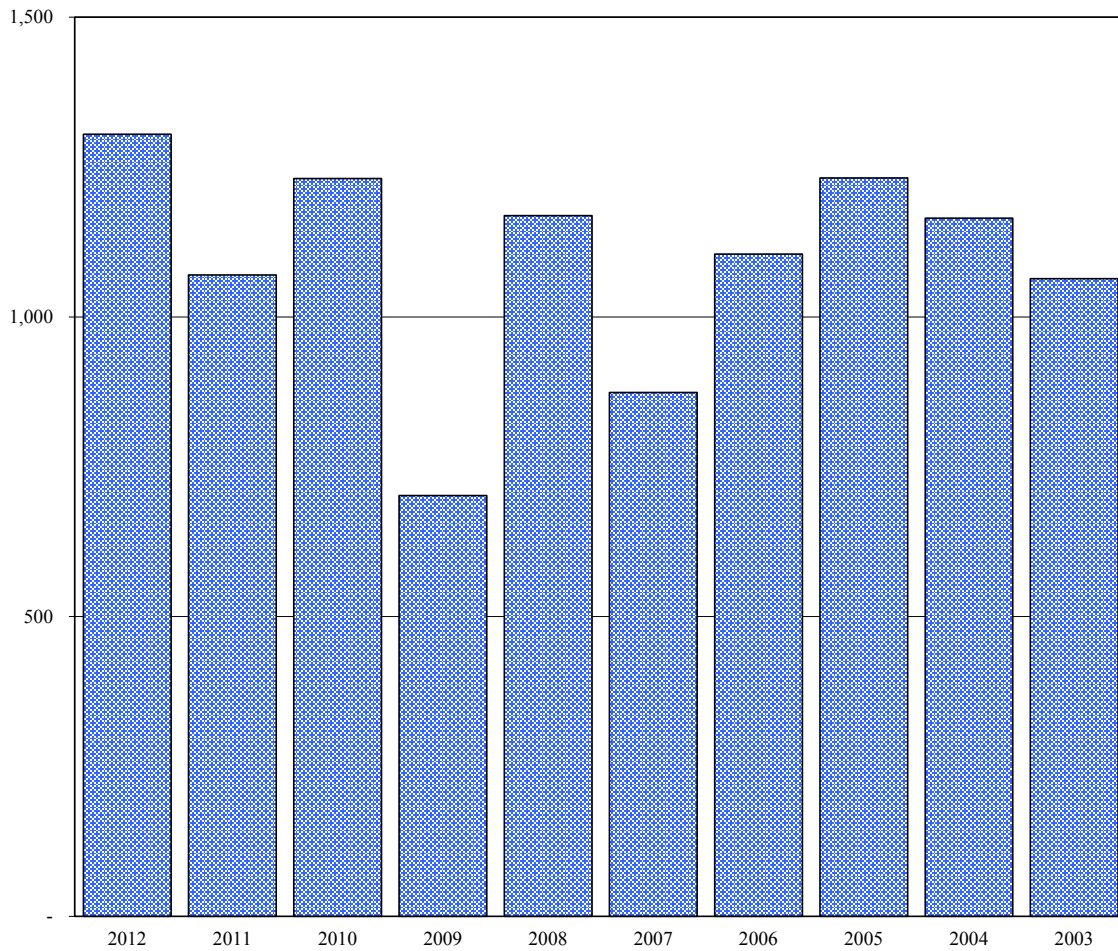
<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
3,372	3,340	3,327	3,472	3,504	3,604
888	907	961	981	1,007	1,033
296	313	332	355	358	367
<u>4,556</u>	<u>4,560</u>	<u>4,620</u>	<u>4,808</u>	<u>4,869</u>	<u>5,004</u>



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

Fiscal Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	Total Projects
Projects	1,305	1,070	1,231	702	1,169	874	1,105	1,232	1,165	1,064	10,917

Number of
Projects





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

Last Ten Fiscal Years

Federal Aid
(Number of Projects)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Bond	0	0	0	0	0	0	0	0	0	1
Interstate Construction	5	7	6	5	11	10	9	4	5	4
Interstate Renovation	24	19	20	16	18	22	15	25	29	26
Interstate Expansion	0	1	0	0	0	0	0	0	0	0
Non-Interstate Other	99	75	44	2	3	4	62	68	65	68
ARRA	1	8	70	73	0	0	0	0	0	0
Appalachian Development	14	30	16	19	19	19	25	12	13	14
Other Bridge	43	50	51	27	24	31	33	40	31	36
Miscellaneous	131	201	205	194	125	137	123	200	208	149
Total	317	391	412	336	200	223	267	349	351	298

Non-Federal Aid
(Number of Projects)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Maintenance	378	276	415	50	444	321	418	445	424	335
Bridge Replacement and Renovation	31	28	26	37	48	32	41	54	29	48
Miscellaneous Bridge Work	45	70	63	20	90	30	40	35	20	36
Industrial Access Roads	10	4	8	4	4	6	7	10	5	7
Bond	0	0	0	0	0	0	0	0	0	11
Roadway Renovation and Improvement	524	301	307	255	383	262	332	339	336	329
Total	988	679	819	366	969	651	838	883	814	766
Grand Total	1305	1070	1231	702	1169	874	1105	1232	1165	1064

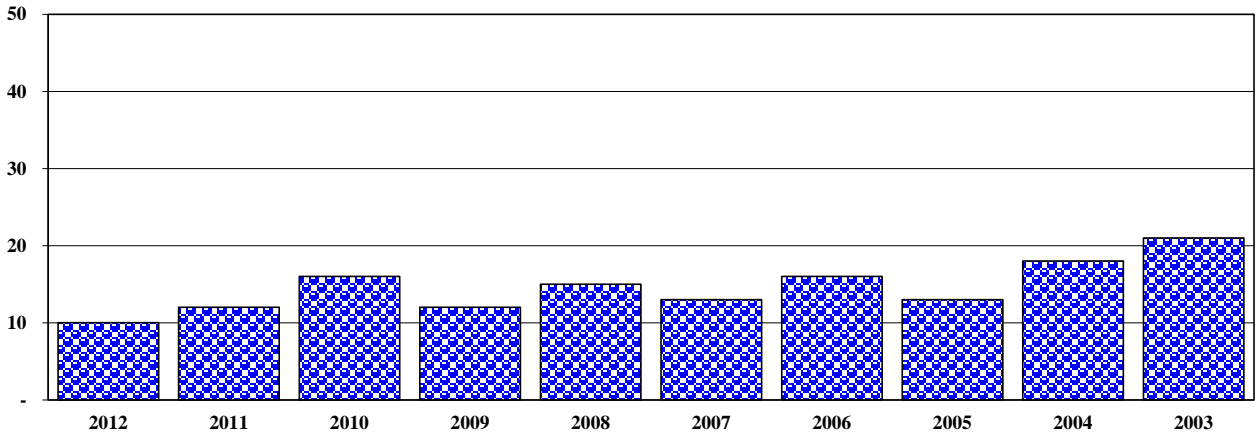
TOTAL AUTHORIZED PROJECTS = 10,917



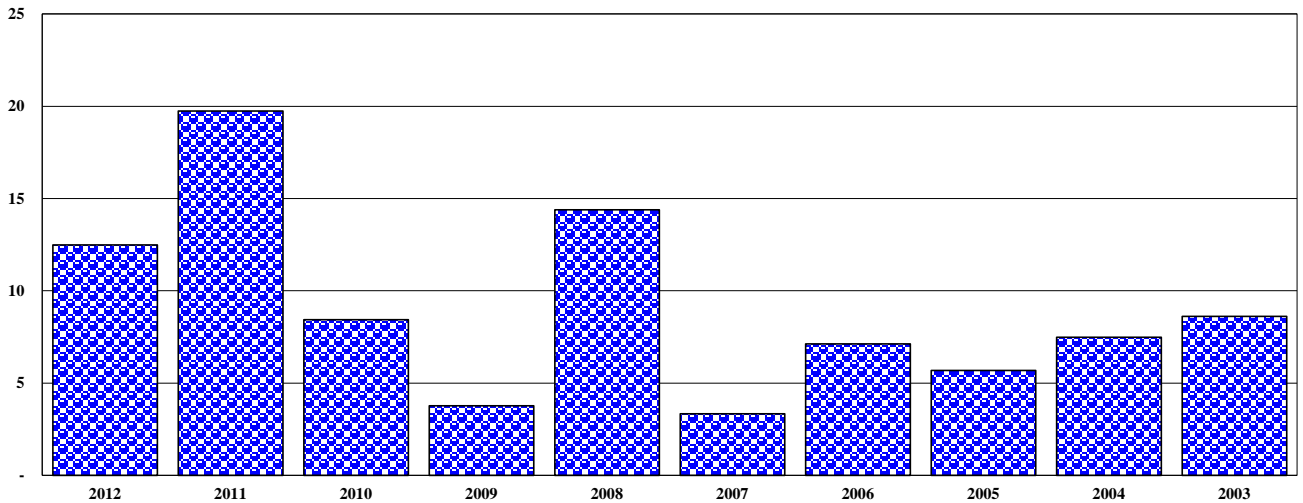
DIVISION OF HIGHWAYS
ROADWAY PROJECTS - SYSTEM EXPANSION ONLY
 Last Ten Fiscal Years

Fiscal Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of Projects	10	12	16	12	15	13	16	13	18	21
Number of Miles	12.49	19.75	8.44	3.77	14.39	3.34	7.13	5.69	7.49	8.62

Number of Projects



Number of Miles

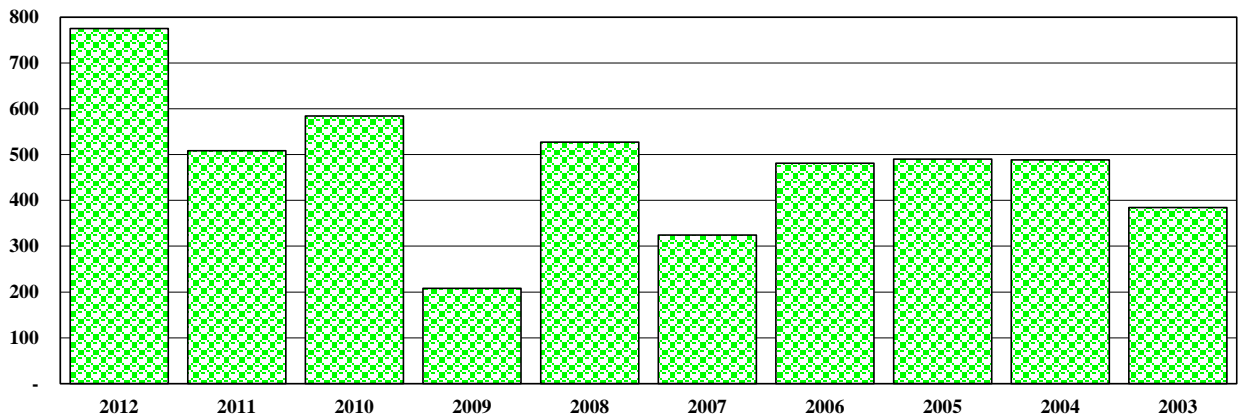




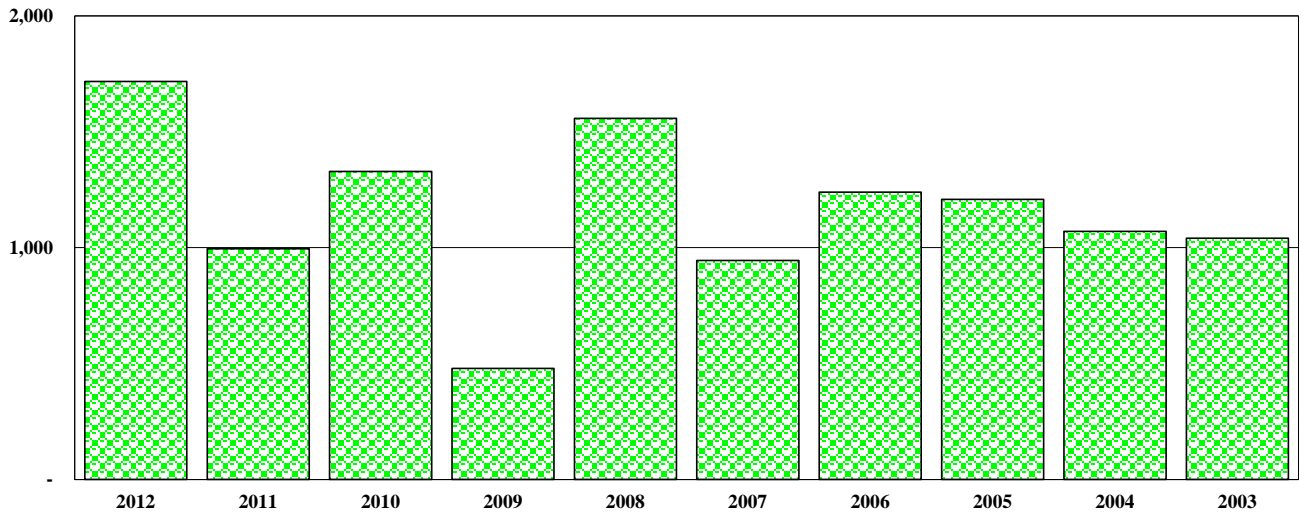
DIVISION OF HIGHWAYS
ROADWAY RESURFACING PROJECTS
 Last Ten Fiscal Years

Fiscal Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of Projects	775	508	584	208	527	324	481	490	488	384
Number of Miles	1,716	995	1,328	479	1,557	944	1,239	1,208	1,070	1,040

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	1,815
W.V. Routes	3,666
County Routes	28,867
Other	<u>1,077</u>
 Total Miles	 35,893

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

<u>Federal Aid Routes</u>		
	Rural Miles	Urban Miles
<u>Interstate Highways (Part of National Highway System)</u>	316 *	152 **
<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>	1,063	224
<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>	7,013	1,583
<p>All other roads on which federal Highway funds may be expended.</p>		
Sub-total miles	8,392	1,959
 Total Miles	 10,351	

