

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

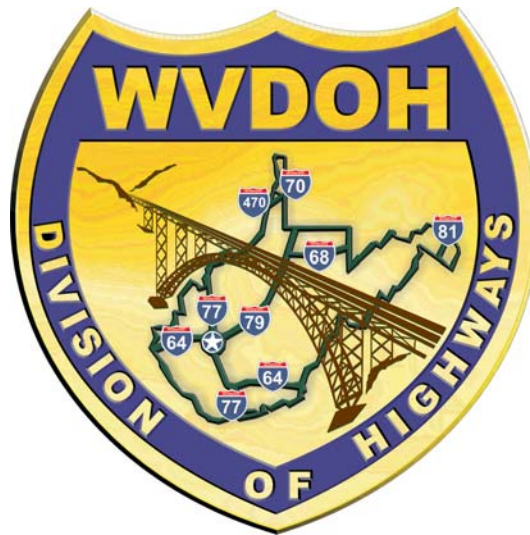
COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010**

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010**

PREPARED BY
FINANCE AND ADMINISTRATION DIVISION

Pictures Courtesy of

WVDOH COMMUNICATIONS/PUBLIC AFFAIRS
STATE CAPITOL COMPLEX
BUILDING 5, ROOM 137
CHARLESTON, WEST VIRGINIA 25305

and

Angie Cottrill
Finance & Administration Division

Printed by
WVDOT Printshop

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2010

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	2
Government Finance Officers Association Certificate of Achievement	8
Organizational Chart	9
List of Principal Officials	10

FINANCIAL SECTION

Independent Auditors' Report	12
Management's Discussion and Analysis	15
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	26
Statement of Activities	28
Fund Financial Statements	
Balance Sheet – Governmental Fund	29
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Assets	30
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	31
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund to the Statement of Activities	32

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2010

TABLE OF CONTENTS

(Continued)

FINANCIAL SECTION (Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Budgetary Basis) – State Road Fund	33
Notes to the Financial Statements	34

STATISTICAL SECTION

Statistical Section Contents	59
Net Assets by Component	60
Changes in Net Assets	62
Changes in Fund Balance of Governmental Fund	64
Fund Balance, Governmental Fund	66
Tax and License Fee Revenue by Source	68
Fuel and Privilege Tax Rates	69
Ratios of Outstanding Debt by Type	70
Demographic Statistics of West Virginia	71
Principal Employers	72
Employees by Program	74
Highway Construction and Improvement, Total Projects Authorized	76
Highway Construction and Improvement, Total Projects Authorized by Type	77
Roadway Projects – System Expansion Only	78
Roadway Resurfacing Projects	79
Total Highway Mileage by Category	80



INTRODUCTORY



WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION

Division of Highways

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

December 31, 2010

Honorable Earl Ray Tomblin, Governor;
Members of the West Virginia Legislature;
and 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, 2010. 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 Gibbons & Kawash was engaged to perform the audit for the year ended June 30, 2010. Its report is included in the financial section of this report. The West Virginia Department of Transportation has undergone a 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 report on the single audit for the year ended June 30, 2010 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. The Division has statutory authority for the construction, rehabilitation and maintenance of 36,249 miles of roads in the State.

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.

ECONOMIC CONDITIONS AND OUTLOOK

The seasonally adjusted unemployment rate in West Virginia was 9.3% for October 2010, as compared to the national rate of 9.6%. During the period of October 2009 to October 2010 nonfarm payroll employment increased by 5,500 jobs. According to the *West Virginia Economic Outlook 2011*, published by the Bureau of Business and Economic Research at the College of Business and Economics, West Virginia University, "West Virginia has emerged from recession and is growing again. The state added jobs at a rapid rate in the second quarter of 2010. The forecast of continued, but slow, growth for the U.S. economy translates into growth for West Virginia during the next five years. The forecast calls for state coal production to rebound during the second half of 2010. While job growth returns to the West Virginia economy, that job growth is not likely to come at a fast enough rate to drive the unemployment rate down to pre-recession levels. Risks to the state outlook include a possible national downturn during late 2010/early 2011, which would generate renewed state job losses and drive the unemployment rate higher." Unless the State Road Fund is able to substantially increase its revenues, the long-term forecast is for reduced construction and maintenance, accompanied by a decline in the condition of the state's highway infrastructure and a negative impact on the overall economic condition of the state.

LONG-TERM FINANCIAL PLANNING

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

	<u>Amount</u>	<u>Percent of Total</u>	<u>Change from Prior Year</u>	
			<u>Amount</u>	<u>Percent</u>
Motor Fuel Excise Tax	393,557	32%	1,654	0%
Automobile privilege taxes	147,466	12%	5,536	4%
Motor vehicle registration and licenses	87,600	7%	345	0%
Special fees and permits	5,793	1%	(165)	-3%
Federal aid	532,020	43%	71,240	15%
Investments and interest income	(457)	0%	(2,376)	-124%
Intergovernmental	41,318	3%	13,394	48%
Miscellaneous	28,012	2%	(3,647)	-12%
Total revenues	\$1,235,309	100%	\$85,981	7%
Road construction and other road operations	684,940	53%	37,935	6%
Road maintenance	410,257	31%	(61,011)	-13%
Support and administrative operations	128,738	10%	30,316	31%
Debt Service	77,573	6%	12,823	20%
Total Expenditures	\$1,301,508	100%	\$20,063	2%

Overall, tax and fee revenues grew slightly in Fiscal Year 2010, but revenues are projected to remain stagnant through Fiscal Year 2014. Federal Aid revenues grew primarily due to the influx of ARRA (American Recovery and Reinvestment Act of 2009) stimulus funds. Investments and Interest income suffered a drastic reduction due to an arbitrage rebate, the volatile market and the continued downward trend in interest rates. Intergovernmental revenues experienced a significant increase due to increased usage and implementation of better collection procedures.

The increase in road construction expenditures is directly related to the ARRA revenues received. Even though the winter of 2009-2010 was more severe than normal, road maintenance

expenditures decreased – mostly due to the benefits of the Core Maintenance Plan put in place in 2008 and the stabilization of salt prices from Fiscal Year 2009. Road maintenance repairs appear to have a longer useful life reducing the need to continually repair the same areas. The fact that salt prices stabilized and all ten Districts obtained a successful award of salt contracts in Fiscal Year 2010 significantly reduced expenses. The sharp increase in Support and Administrative Operations is due to Other Post Employment Benefits having to be accounted for by a new accounting method.

At June 30, 2010 the outstanding principal balance of long-term general obligation bonds was \$339,515,000. These bonds were issued between 1998 and 2005 including \$550,000,000 issued under the Safe Road Amendment of 1996, and are scheduled to be retired through June 1, 2025. Total debt service payments are expected to remain around \$50 million annually for fiscal years 2011-2012.

At June 30, 2010 the outstanding principal balance of the Grant Anticipation Revenue Vehicle (GARVEE) notes was \$144,315,000. 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.

The West Virginia Board of Treasury Investments is responsible for the investment of all state monies, including the Division's. Such funds are invested in the West Virginia Board of Treasury Investments' consolidated investment pools. Investments in pooled accounts are made at the Division's request depending upon available cash and the amount of disbursements being processed.

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; and employee health and life coverage. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) and the Public Employees Insurance Agency (PEIA) as public entity risk pools and insurance funds to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process.

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 33) 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.

Due to several factors, including a high concentration of truck traffic, safety concerns, and its regional significance, the Division has given high priority to improvement of US 35 in Putnam and Mason Counties. The Division used the previously described GARVEE notes to accelerate construction of significant portions of that highway. 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. All Mon-Fayette Expressway projects are either programmed or currently under construction.

In conjunction with improvement of the road system through construction and upgrading, the Division has emphasized roadway and bridge preservation and renovation. Rugged mountainous terrain and numerous streams and rivers characterize the topography of the State. Consequently, the State's road system includes more than 6,700 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 3,991 bridges have been repaired or replaced at a cost of more than \$2.6 billion. Other accomplishments during the fiscal year ended June 30, 2010 include the resurfacing of approximately 1,327 miles of roadway at a cost of \$208 million.

During the fiscal year ended June 30, 2010, the Division continued to improve the operating efficiency of the heavy equipment road maintenance fleet through the procurement of approximately \$27 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 eighteen consecutive fiscal years (1992-2009). The Certificate of Achievement is a prestigious international award

recognizing conformance with the highest standards for preparation of state and local government financial reports. The Division was the second West Virginia state agency to be awarded the GFOA Certificate and is one of only nine State of West Virginia agencies to receive the Certificate for the year ended June 30, 2010.

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

A Certificate of Achievement is valid for a period of one year only. The Division believes its FY2010 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

A handwritten signature in blue ink that reads "Paul A. Mattox, Jr." with a stylized flourish at the end.

Paul A. Mattox, Jr., P. E.
Secretary of Transportation/
Commissioner 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, 2009

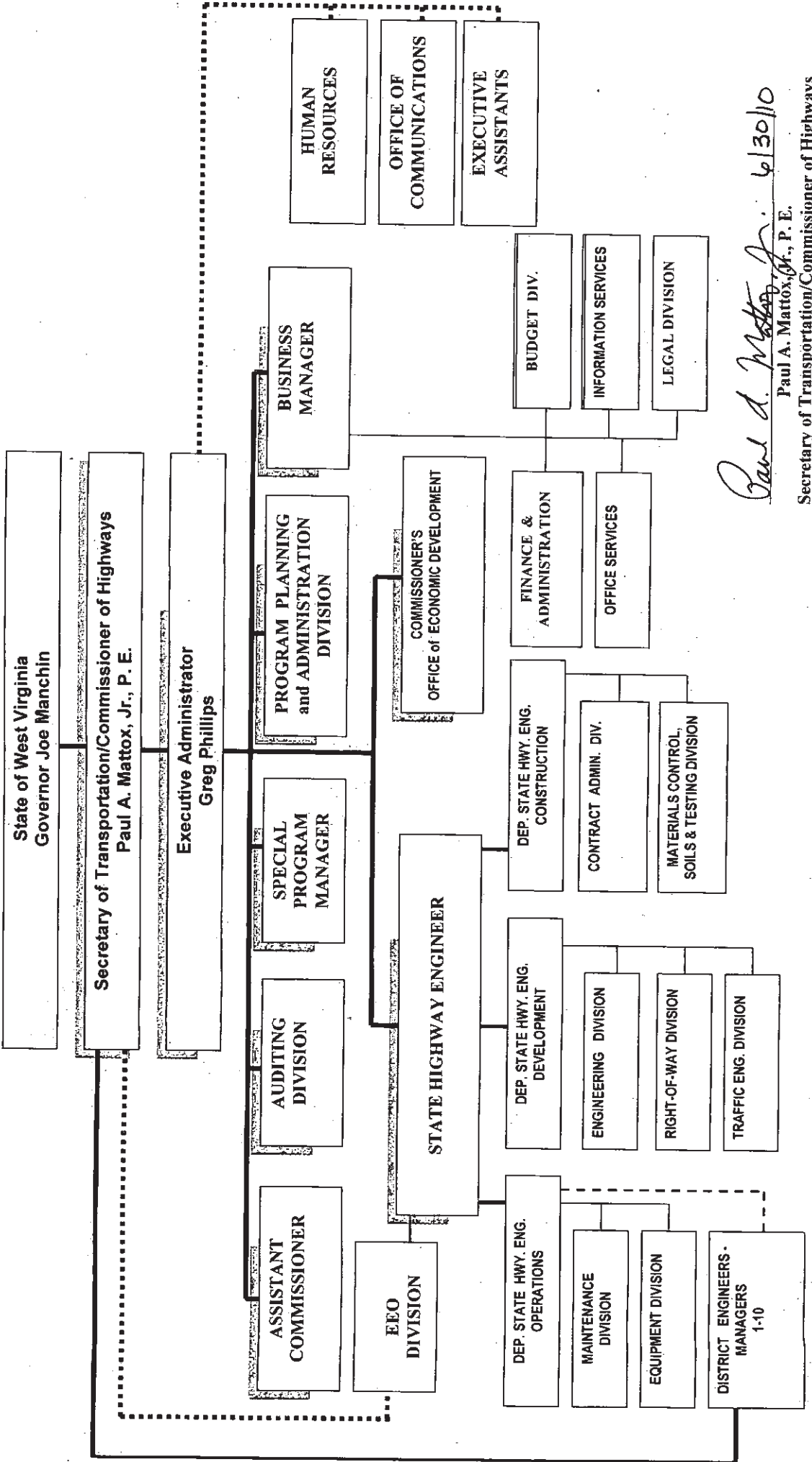
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

WEST VIRGINIA DIVISION OF HIGHWAYS



Paul A. Mattox, Jr. 6/30/10
 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, 2010

Paul A. Mattox, Jr.	Cabinet Secretary of Transportation
Paul A. Mattox, Jr.	Commissioner of Highways
Marvin Murphy	State Highway Engineer
Howard Mullens	Assistant Commissioner
Greg Phillips	Executive Administrator
Keith Chapman	Acting Business Manager/Acting Deputy Secretary
Steve Cole	Deputy State Highway Engineer-Operations
David Cramer	Director, Economic Development
Jimmy Wriston	Special Program Manager
Darrell Allen	Deputy State Highway Engineer-Development
Darrell Allen	Deputy State Highway Engineer-Construction
Kathy Holtsclaw	Executive Assistant
Ernie Larzo	Executive Assistant
Chuck Runyon	Executive Assistant
Randy Wade	Director, Auditing Division
Alice Taylor	Director, Budget Division
Todd Rumbaugh	Director, Contract Administration Division
Greg Bailey	Director, Engineering Division
Drema Smith	Director, Equal Employment Oportunity Division
Robert Andrew	Director, Equipment Division
Jim Hash	Acting Director, Finance & Administration Division
Jeff Black	Director, Human Resources Division
Fred Thomas	Director, Information Services Division
Anthony Halkias	Director, Legal Division
Kyle Stollings	Director, Maintenance Division
Aaron Gillespie	Director, Materials Control Soil & Testing Division
Susie Watkins	Director, Office of Communications
Elaine Pannell	Acting Director, Office Services Division
Rob Pennington	Director, Program Planning & Administration Division
David Jack	Director, Right of Way Division
Cindy Cramer	Director, Traffic Engineering Division
Wilson Braley	Regional Operations Engineer
Eugene Tuckwiller	Regional Operations Engineer
Travis Ray	Regional Operations Engineer
Gary Clayton	Regional Operations Engineer

DISTRICT ENGINEERS/MANAGERS

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

F
I
S
N
E
A
C
T
I
O
N
A
L



WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

INDEPENDENT AUDITORS' REPORT

To the Members of the
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 (the Division), as of and for the year ended June 30, 2010, 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.

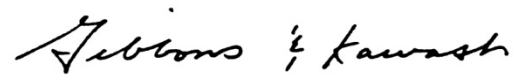
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the West Virginia Department of Transportation and of the State of West Virginia that is attributable to the transactions of the Division. As a result, the financial statements 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, 2010 and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways as of June 30, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's financial statements as a whole. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Division. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Gibson & Kawash". The signature is written in a cursive, flowing style.

November 12, 2010

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, 2010. This section introduces the 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 \$7.53 billion as of the close of fiscal year 2010.

Changes in Net Assets - During the year the Divisions' Net Assets increased \$176 million or 2.39%. This percentage of increase is a slight increase from the prior year, when Net Assets increased \$160 million or 2.22%.

Revenues and Expenses - Total revenues increased by \$86 million or 7.48%. Total expenses increased \$70 million or 7.07%. 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 2010, the Division's governmental funds reported combined total fund equity of \$235 million, a decrease of \$66 million in comparison with the restated prior year balance.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$33 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 9.78% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the Division's financial statements. The Division's 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 are 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, 2010 and 2009 (amounts in thousands).

Net Assets as of June 30

	2010	2009	% Change
Total current assets	\$ 365,756	\$ 388,892	-5.95%
Capital assets, net of accumulated depreciation	7,852,616	7,656,377	2.56%
Other non-current assets	2,378	2,694	-11.73%
Total assets	8,220,750	8,047,963	2.15%
Total current liabilities	160,055	144,717	10.60%
Long term liabilities	532,935	551,139	-3.30%
Total liabilities	692,990	695,856	-0.41%
Invested in capital assets, net of related debt	7,358,147	7,144,763	2.99%
Restricted	17,035	18,119	-5.98%
Unrestricted	152,578	189,225	-19.37%
Total net assets	\$ 7,527,760	\$ 7,352,107	2.39%

The largest component (97.75%) 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.

Condensed Statement of Activities

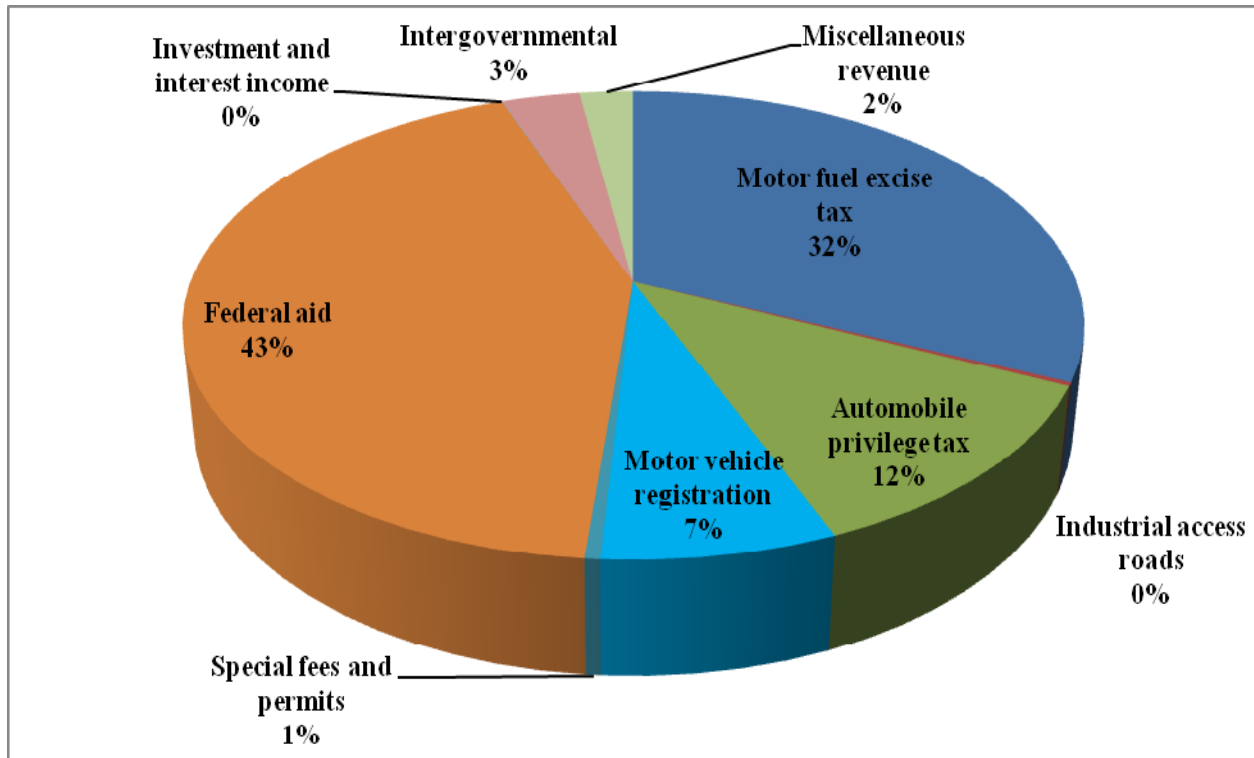
The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Revenues			
Taxes	\$ 541,023	\$ 533,833	1.35%
Investment and interest income	(457)	1,919	-123.81%
Intergovernmental	41,318	27,924	47.97%
Miscellaneous revenues	<u>25,012</u>	<u>28,647</u>	-12.69%
Total general revenues	<u>606,896</u>	<u>592,323</u>	2.46%
Capital grants and contributions	535,020	463,790	15.36%
Charges for service	<u>93,393</u>	<u>93,213</u>	0.19%
Total program revenues	<u>628,413</u>	<u>557,003</u>	12.82%
Total revenues	<u>1,235,309</u>	<u>1,149,326</u>	7.48%
Expenses			
Road maintenance	411,816	464,083	-11.26%
Other road operations	522,766	425,687	22.81%
General and administration	99,118	73,854	34.21%
Interest on long-term debt	22,514	22,730	-0.95%
Unallocated depreciation	<u>3,442</u>	<u>3,364</u>	2.32%
Total expenses	<u>1,059,656</u>	<u>989,718</u>	7.07%
Change in net assets	175,653	159,608	10.05%
Net assets, beginning	<u>7,352,107</u>	<u>7,192,499</u>	2.22%
Net assets, ending	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	2.39%

Over time, increases and decreases in net assets measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$176 million or 2.39% 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 ended June 30, 2010.



Total revenues increased by approximately \$86 million. Total tax revenues increased by approximately \$7 million. Federal aid revenue increased by approximately \$71 million or 15.46%. The following summarizes revenues for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 393,557	\$ 391,903	\$ 1,654	0.42%
Industrial access roads	3,000	3,010	(10)	-0.33%
Automobile privilege tax	147,466	141,930	5,536	3.90%
Motor vehicle registration fees	87,600	87,255	345	0.40%
Special fees and permits	5,793	5,958	(165)	-2.77%
Federal aid	532,020	460,780	71,240	15.46%
Investment and interest income	(457)	1,919	(2,376)	-123.81%
Intergovernmental	41,318	27,924	13,394	47.97%
Miscellaneous revenues	25,012	28,647	(3,635)	-12.69%
	<u>\$ 1,235,309</u>	<u>\$ 1,149,326</u>	<u>\$ 85,983</u>	7.48%

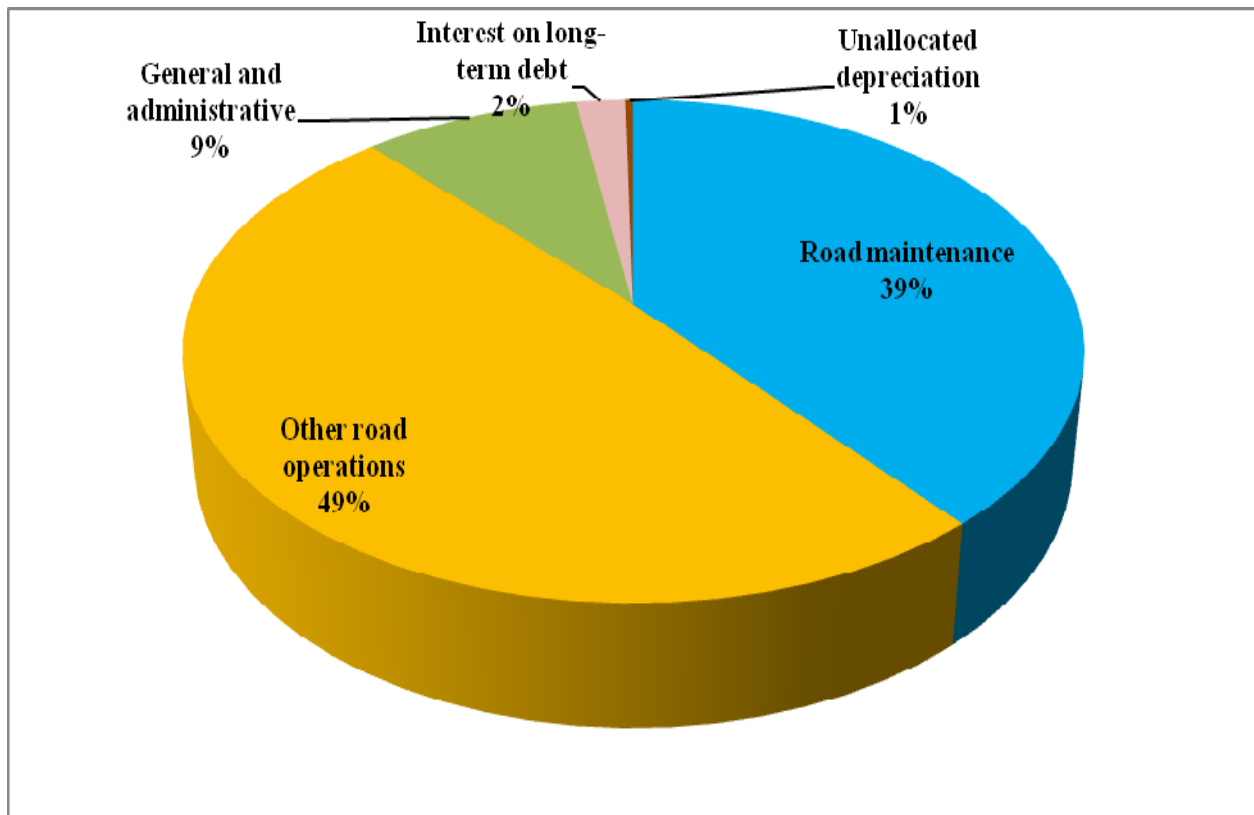
The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration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

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

The lingering effects of the recession continue to impact State Road Fund tax revenue collections in FY2010. Reported on a cash basis, the revenues were only \$1.72 million (.27%) higher than in FY2009. Sales (Privilege) Tax collections continued to lag significantly; \$12.24 million (7.62%) below estimates and \$2.48 million (1.64%) below FY2009 revenues. Registration Fees were \$2.02 million below estimates and \$2.04 million (2.28%) below FY2009 revenues. The one revenue source that appeared to weather the recession successfully was the Motor Fuel Excise Tax. That revenue exceeded estimates by \$10.92 million (2.87%) and was \$6.38 million (1.66%) above FY2009 revenues. The overages in Motor Fuel Excise Tax revenue, however, were not able to completely offset the shortages reported in the other revenue sources. Overall, FY2010 tax revenues were \$3.49 million (.55%) below estimates. In FY2011, minimal revenue growth is expected. 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 may 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 2010 were authorized under the Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the American Recovery and Reinvestment Act of 2009.

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



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

Total expenses increased by approximately \$70 million or 7.07%. The following summarizes expenditures for the years ended June 30, 2010 and June 30, 2009 (amounts in thousands):

	2010	2009	Increase (Decrease)	% Increase (Decrease)
Road maintenance	\$ 411,816	\$ 464,083	\$ (52,267)	-11.26%
Other road operations	522,766	425,687	97,079	22.81%
General and administration	99,118	73,854	25,264	34.21%
Interest on long-term debt	22,514	22,730	(216)	-0.95%
Unallocated depreciation	3,442	3,364	78	2.32%
	<u>\$ 1,059,656</u>	<u>\$ 989,718</u>	<u>\$ 69,938</u>	7.07%

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 and ice removal (SRIC) that is required in a given year. In FY 2010, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

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

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS

At June 30, 2010, the Division reported fund balances of approximately \$235 million. Of this total amount, \$180 million, 76.6%, constitutes unassigned fund balance, which is available for the general purposes of the funds. The remainder of fund balance is restricted for capital projects and nonspendable as it is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

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

Capital Projects Fund

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

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

service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. The Division sold \$77 million in GARVEE notes during the fiscal year ended June 30, 2009. Those GARVEE note sales were for the construction of portions of the US Route 35 corridor. At June 30, 2010 the capital projects balance of approximately \$18 million represented unexpended note funds associated with the 2009A note issue.

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

	<u>2010</u>	<u>2009</u>	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise and wholesale fuel	\$ 393,557	\$ 391,903	\$ 1,654	0.42%
Motor vehicle registration	87,600	87,255	345	0.40%
Privilege tax	<u>147,466</u>	<u>141,930</u>	<u>5,536</u>	3.90%
	<u>\$ 628,623</u>	<u>\$ 621,088</u>	<u>\$ 7,535</u>	1.21%

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

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2010 was \$495.27 million, used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

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

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement - Budgeted funds	\$ 494,588	\$ 441,658	\$ 52,930	11.98%
Federal reimbursement - Surface Transportation	27,591	14,692	12,899	87.80%
Federal reimbursement - Emergency funds	<u>9,842</u>	<u>4,430</u>	<u>5,412</u>	122.17%
 Total Federal Aid	 <u>\$ 532,021</u>	 <u>\$ 460,780</u>	 <u>\$ 71,241</u>	 15.46%

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

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, 2010, the Division had \$340 million in outstanding bonds. The amount outstanding decreased by \$31 million or 8.51% 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 2009. These notes are revenue notes and the debt service payments will be

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

funded through federal aid revenue. At June 30, 2010, the Division had \$144 million in outstanding revenue notes. The amount decreased by \$21 million or 12.62% due to net principal payments.

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

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

More detailed information regarding capital asset and long-term debt activity is included in the notes 8 and 10, 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, 2010
(amounts expressed in thousands)

ASSETS	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 191,750
Accounts receivable, net	78,697
Taxes receivable	55,834
Due from other State of West Virginia agencies	2,318
Inventories	37,157
Total current assets	<u>365,756</u>
Non-current assets:	
Capital assets not being depreciated	
Land - non-infrastructure	15,477
Land - infrastructure	928,577
Construction in progress	1,117,065
Capital assets net of accumulated depreciation:	
Land improvements	6,606
Buildings	69,816
Furniture and fixtures	596
Rolling stock	75,455
Scientific equipment	635
Shop equipment	58
Roads	3,745,318
Bridges	1,893,013
Total capital assets	<u>7,852,616</u>
Other non-current assets	<u>2,378</u>
Total non-current assets	<u>7,854,994</u>
Total assets	<u>8,220,750</u>

(Continued)

	<u>Governmental Activities</u>
LIABILITIES	
Current liabilities	
Accounts payable	57,805
Retainages payable	4,985
Accrued payroll and related liabilities	19,507
Due to other State of West Virginia agencies	3,333
Accrued interest payable	3,572
Current maturities of long-term obligations	70,853
Total current liabilities	<u>160,055</u>
Non-current liabilities	
Claims and judgments	16,920
Compensated absences	16,152
Other post employment benefits	44,656
Long-term debt obligations	455,207
Total non-current liabilities	<u>532,935</u>
 Total liabilities	 <u>692,990</u>
 NET ASSETS	
Invested in capital assets, net of related debt	7,358,147
Unrestricted	152,578
Restricted	
Coal resource	7,474
Waste tire	2,363
Industrial access	7,198
 Total net assets	 <u><u>\$ 7,527,760</u></u>

The accompanying notes are an integral part of the financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(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	\$ 319,219	\$ -	\$ -	\$ (319,219)
Contract paving and secondary roads	62,542	-	-	(62,542)
Small bridge repair & replacement	10,416	-	-	(10,416)
Litter control program	1,688	-	-	(1,688)
Depreciation	17,951	-	-	(17,951)
Other road operations				
Interstate highways	86,148	-	112,435	26,287
Appalachian highways	5,482	-	81,840	76,358
Other federal aid programs	129,913	-	337,745	207,832
Non federal aid improvements	5,500	-	-	(5,500)
Industrial access roads	3,121	-	3,000	(121)
Depreciation	292,602	-	-	(292,602)
General and administrative				
Support and administrative operations	55,956	5,793	-	(50,163)
Claims	11,172	-	-	(11,172)
Cost associated with DMV	31,990	87,600	-	55,610
Interest on long-term debt	22,514	-	-	(22,514)
Unallocated depreciation	3,442	-	-	(3,442)
	<u>\$ 1,059,656</u>	<u>\$ 93,393</u>	<u>\$ 535,020</u>	<u>\$ (431,243)</u>
General revenues				
Taxes:				
				\$ 393,557
Gasoline and motor carrier				147,466
Automobile privilege				(457)
Investment and interest income				41,318
Intergovernmental				25,012
Miscellaneous revenues				<u>606,896</u>
Total general revenues				<u>606,896</u>
Change in net assets				175,653
Net assets, beginning				<u>7,352,107</u>
Net assets, ending				<u>\$ 7,527,760</u>

The accompanying notes are an integral part of the financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

	State Road (General)	Capital Projects	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 171,413	\$ 20,337	\$ 191,750
Receivables	78,697	-	78,697
Taxes receivable	55,834	-	55,834
Due from other funds	6,430	-	6,430
Due from other State of West Virginia agencies	2,318	-	2,318
Inventories	37,157	-	37,157
Total assets	<u>\$ 351,849</u>	<u>\$ 20,337</u>	<u>\$ 372,186</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 55,637	\$ 2,168	\$ 57,805
Retainages payable	4,985	-	4,985
Accrued payroll and related liabilities	19,507	-	19,507
Other post employment benefits	44,656	-	44,656
Due to other funds	6,289	141	6,430
Due to other State of West Virginia agencies	3,333	-	3,333
Total liabilities	<u>134,407</u>	<u>2,309</u>	<u>136,716</u>
Fund balances			
Nonspendable	37,157	-	37,157
Restricted for capital projects by trust indenture	-	18,028	18,028
Unassigned	180,285	-	180,285
Total fund balances	<u>217,442</u>	<u>18,028</u>	<u>235,470</u>
 Total liabilities and fund balances	 <u>\$ 351,849</u>	 <u>\$ 20,337</u>	 <u>\$ 372,186</u>

The accompanying notes are an integral part of the financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010
 (amounts expressed in thousands)

Total fund balances - governmental funds	\$	235,470
--	----	---------

Amounts reported for governmental activities in the statements of net assets and 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	\$	15,477
Land - infrastructure		928,577
Construction in progress		1,117,065

Capital assets net of accumulated depreciation:

Land improvements		6,606
Buildings		69,816
Furniture and fixtures		596
Rolling stock		75,455
Scientific equipment		635
Shop equipment		58
Roads		3,745,318
Bridges		<u>1,893,013</u>
		7,852,616

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

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

Accrued interest payable		(3,572)
Claims and judgments		(18,485)
Compensated absences		(28,150)
General obligation bonds and revenue notes		<u>(512,497)</u>
		<u>(562,704)</u>

Net assets of governmental activities	\$	<u><u>7,527,760</u></u>
---------------------------------------	----	-------------------------

The accompanying notes are an integral part of the financial statements.

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

	State Road (General)	Capital Projects	Total Governmental Funds
Revenues			
Taxes			
Gasoline and motor carrier	\$ 393,557	\$ -	\$ 393,557
Automobile privilege	147,466	-	147,466
Industrial access roads	3,000	-	3,000
License, fees and permits			
Motor vehicle registrations and licenses	87,600	-	87,600
Special fees and permits	5,793	-	5,793
Federal aid			
Interstate highways	112,435	-	112,435
Appalachian highways	81,840	-	81,840
Other federal aid programs	310,155	27,591	337,746
Investment and interest income, net of arbitrage rate	510	(967)	(457)
Intergovernmental	41,520	(202)	41,318
Miscellaneous revenues	25,012	-	25,012
	<u>1,208,888</u>	<u>26,422</u>	<u>1,235,310</u>
Expenditures			
Current:			
Road maintenance:			
Expressway, trunkline and feeder, state and local services	318,389	-	318,389
Contract paving and secondary roads	62,542	-	62,542
Small bridge repair and replacement	27,638	-	27,638
Litter control program	1,688	-	1,688
Support and administrative operations	96,251	-	96,251
Division of motor vehicle operations	31,990	-	31,990
Claims	497	-	497
Capital outlay and other road operations:			
Road construction and other road operations:			
Interstate highways	125,499	-	125,499
Appalachian highways	102,626	-	102,626
Other federal aid programs	389,235	37,745	426,980
Nonfederal aid construction and road operations	26,714	-	26,714
Industrial access roads	3,121	-	3,121
Debt service:			
Bond issue cost	4	-	4
Principal	31,590	20,845	52,435
Interest	18,388	6,746	25,134
	<u>1,236,172</u>	<u>65,336</u>	<u>1,301,508</u>
Deficiency of revenue under expenditures	(27,284)	(38,914)	(66,198)
Fund balances, beginning of year (previously reported)	258,826	56,942	315,768
Prior period adjustment	(14,100)	-	(14,100)
Fund balances, beginning of year (restated)	<u>244,726</u>	<u>56,942</u>	<u>301,668</u>
Fund balances, end of year	<u>\$ 217,442</u>	<u>\$ 18,028</u>	<u>\$ 235,470</u>

The accompanying notes are an integral part of the financial statements.

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

Net change in fund balances - total governmental funds \$ (66,198)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$510,745 exceeded depreciation of (\$313,995) in the current period. 196,750

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

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

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase in claims of \$(10,676) amortization of bond issue cost of \$(316) and decrease in interest payable of \$288, exceed the decrease in compensated absences \$1,228 and the accretion of bond premium of \$2,655. (6,821)

Change in net assets of governmental activities \$ 175,653

The accompanying notes are an integral part of the financial statements.

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

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

The accompanying notes are an integral part of the financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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, 2010
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

When both restricted and unrestricted resources are available for use, generally it is the 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, 2010, 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, 2010
(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 for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

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

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

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

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2010 are a result of these routine payments and transfers.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010
 (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, 2010, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$	27,044
Basis of accounting differences (budgetary to GAAP)		(60,279)
Unbudgeted funds		<u>5,951</u>
Deficiency of revenues under expenditures - GAAP basis	\$	<u>(27,284)</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. 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 accordance with GASB Statement No. 54 in the Government Fund Financial Statements.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in the State’s post-employment benefits plan, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 14.

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.

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.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010.

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, 2010.

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	July 1, 2009
Fund balance (as previously reported)	\$ 258,826
Liabilities previously not reported in the fund	(14,100)
Fund balance (as restated)	\$ 244,726

NOTE 3: CASH AND CASH EQUIVALENTS

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

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	\$ 17,578	\$ 17,578
Cash on deposit with State Treasurer in Debt Service Fund	26	26
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	138,581	138,581
Cash on deposit with State Treasurer invested in BTI WV Short Term Bond Pool	15,133	15,133
Cash on deposit with State Treasurer invested in BTI WV Government Money Market Pool - (Garvee 2009A)	20,334	20,334
Cash in transit	98	98
	\$ 191,750	\$ 191,750

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

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

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 is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI’s Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI’s Consolidated Fund. Of the BTI’s Consolidated Fund pools which the Division may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool.

WV Money Market Pool

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2010, the WV Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2010, the WV Money Market Pool investments had a total carrying value of \$2,876,711, of which the Division’s ownership represents 4.82%.

WV Government Money Market Pool

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

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

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

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

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

WV Short Term Bond Pool

Credit risk – The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The following table provides information on the credit ratings of the WV Short Term Bond Pool’s investments:

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

* NR = Not Rated

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

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

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

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

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

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk (Continued)

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 are subject to interest rate risk.

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

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

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

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

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

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

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

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

Other Investment Risks

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools 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 investment in a single corporate issuer. The BTI investment policy prohibits those pools permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

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

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

Securities Lending

At June 30, 2010, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, approximately \$133,606 was received as cash. The collateral received as cash is invested in a collateral pool. For securities loaned at June 30, 2010, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. The BTI is exposed to cash reinvestment risk, which is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due the borrowing brokers. Maturities of investments made with cash collateral are not matched to maturities of securities loaned.

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

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	\$ 79,708	\$ 81,332
WV Short Term Bond Pool	51,473	52,274
	\$ 131,181	\$ 133,606

Deposits

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

NOTE 4: ACCOUNTS RECEIVABLE

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

Federal aid billed and not paid	\$ 10,684
Federal aid earned but not billed	57,124
Total federal aid receivable	67,808
Other receivables	11,381
Combined total receivables	79,189
Less: allowance for uncollectibles	(492)
Net accounts receivable	\$ 78,697

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

NOTE 5: TAXES RECEIVABLE

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

Automobile privilege taxes	\$ 18,733
Motor fuel excise taxes	34,808
Registration and other fees	2,293
Total taxes receivable	\$ 55,834

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

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

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

The Department of Motor Vehicles	\$ 2,060
Other agencies	<u>258</u>
Total amounts due from other State of West Virginia agencies	<u><u>\$ 2,318</u></u>

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

Public Employees Insurance Agency	\$ 1,800
Public Employees Retirement System	1,472
Other agencies	<u>61</u>
Total amounts due to other State of West Virginia agencies	<u><u>\$ 3,333</u></u>

NOTE 7: INVENTORIES

Inventories at June 30, 2010 consisted of the following:

Materials and supplies	\$ 26,341
Equipment repair parts	7,863
Gas and lubrication supplies	<u>2,953</u>
Total inventories	<u><u>\$ 37,157</u></u>

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

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010
Capital assets not being depreciated:				
Land - non infrastructure	\$ 14,221	\$ 1,256	\$ -	\$ 15,477
Land - infrastructure	898,613	29,964	-	928,577
Construction-in-progress - buildings	14,331	11,108	11,088	14,351
Construction-in-progress - land improvements	1,118	1,288	1,833	573
Construction-in-progress - roads	765,591	311,599	230,210	846,980
Construction-in-progress - bridges	287,490	164,695	197,024	255,161
	<u>1,981,364</u>	<u>519,910</u>	<u>440,155</u>	<u>2,061,119</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings	102,399	10,050	347	112,102
Furniture and fixtures	3,861	439	169	4,131
Land improvements - non infrastructure	8,567	1,486	-	10,053
Rolling stock	217,600	27,939	7,800	237,739
Shop equipment	3,040	15	5	3,050
Scientific equipment	2,739	46	-	2,785
Infrastructure - roads	7,539,386	196,232	-	7,735,618
Infrastructure - bridges	2,150,585	194,785	-	2,345,370
	<u>10,028,177</u>	<u>430,992</u>	<u>8,321</u>	<u>10,450,848</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings	39,730	2,846	290	42,286
Furniture and fixtures	3,535	169	169	3,535
Land improvements - non infrastructure	3,019	428	-	3,447
Rolling stock	151,853	17,776	7,345	162,284
Shop equipment	2,987	9	4	2,992
Scientific equipment	1,985	165	-	2,150
Infrastructure - roads	3,744,862	245,438	-	3,990,300
Infrastructure - bridges	405,193	47,164	-	452,357
	<u>4,353,164</u>	<u>313,995</u>	<u>7,808</u>	<u>4,659,351</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>5,675,013</u>	<u>116,997</u>	<u>513</u>	<u>5,791,497</u>
Governmental activities capital assets, net	<u>\$ 7,656,377</u>	<u>\$ 702,783</u>	<u>\$ 506,544</u>	<u>\$ 7,852,616</u>

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

NOTE 8: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$310,553 was allocated to separate line items in the statement of activities under the major functions of the Division, such as Maintenance and/or Improvements. The remaining \$3,442 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to 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	\$ 2,845
Furniture and fixtures	169
Land improvements	428
Total unallocated	<u>3,442</u>
Rolling stock	17,776
Shop equipment	10
Scientific equipment	165
Total road maintenance	<u>17,951</u>
Infrastructure - roads	245,437
Infrastructure - bridges	47,165
Total other road operations	<u>292,602</u>
Total depreciation expense	<u>\$ 313,995</u>

NOTE 9: 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, 2010, retainages payable included \$237 that was on deposit at BTI for construction contractors.

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

NOTE 10: LONG-TERM OBLIGATIONS

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

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30% - 5.25%	06/01/2023	\$ 36,025	\$ -	\$ -	\$ 36,025
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	36,745	-	11,150	25,595
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	298,335	-	20,440	277,895
Total general obligation bonds				<u>371,105</u>	<u>-</u>	<u>31,590</u>	<u>339,515</u>
Note premium				<u>24,184</u>	<u>-</u>	<u>1,633</u>	<u>22,551</u>
Total general obligation bonds payable including premium				<u>395,289</u>	<u>-</u>	<u>33,223</u>	<u>362,066</u>
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	61,600	-	7,665	53,935
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	26,725	-	3,340	23,385
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	<u>76,835</u>	<u>-</u>	<u>9,840</u>	<u>66,995</u>
Total revenue notes payable				165,160	-	20,845	144,315
Note premium				<u>7,135</u>	<u>-</u>	<u>1,019</u>	<u>6,116</u>
Total general obligation notes payable including premium				<u>172,295</u>	<u>-</u>	<u>21,864</u>	<u>150,431</u>
Claims and judgments				7,809	11,185	509	18,485
Compensated absences				29,378	-	1,228	28,150
Other postemployment benefits				<u>14,101</u>	<u>30,555</u>	<u>-</u>	<u>44,656</u>
Total long-term obligations				<u>\$ 618,872</u>	<u>\$ 41,740</u>	<u>\$ 56,824</u>	<u>\$ 603,788</u>

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

NOTE 10: 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 for debt service funds included interest of \$25,148 for the year ended June 30, 2010. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable liquidated through debt service funds, are as follows:

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

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

NOTE 10: 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.

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.

In 2005, the State refinanced \$321,405 in general obligation bonds to advance-refund \$319,860 of outstanding 1998, 1999 and 2000 Series bonds. The net proceeds of \$351,405 (after payment of \$1,606 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government State and Local Government Series securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refinanced portions of the 1998, 1999, and 2000 Series bonds. As a result, the refinanced portion of the 1998 and 1999 Series bonds along with all 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,545. This amount is being netted against the new debt and amortized over the remaining useful life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by \$19,689 and resulted in an economic gain of \$18,821.

The portion of long-term and short-term compensated absences, other post-employment benefits, claims payable, and general obligation bonds are as follows:

	Compensated Absences	Other Post Employment Benefits	Claims and Judgments	General Obligation Bonds and Revenue Notes and Premium	Total
Short-term liability	\$ 11,999	\$ -	\$ 1,564	\$ 57,290	\$ 70,853
Long-term liability	16,151	44,656	16,921	455,207	532,935
	<u>\$ 28,150</u>	<u>\$ 44,656</u>	<u>\$ 18,485</u>	<u>\$ 512,497</u>	<u>\$ 603,788</u>

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

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

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

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

At June 30, 2010, approximately \$13,871 of tort claims, \$1,850 in environmental claims, and \$1,200 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$18,485 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 \$1,564. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

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

NOTE 11: 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, 2011, 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, 2010 the Division incurred payroll related expenditures of approximately \$22,846 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$18,040 in employer matching contributions to the State Public Retirement System.

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

NOTE 12: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$655,569 at June 30, 2010.

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, 2010, there were approximately 416 open cases. These cases involve the acquisitions of properties by the Division for right of way purposes. The Division has paid the applicable courts, on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Division.

NOTE 13: 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 15.5% of annual covered payroll, including the Division's contribution of 11% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$18,040, \$18,154, and \$16,912, respectively, equal to the required contributions for each year.

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

NOTE 14: OTHER POST EMPLOYMENT BENEFITS

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

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

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The ARC rate is nine hundred one dollars per employee per month for the year ending June 30, 2010. The Division's ARC was \$30,555, \$19,296, and \$22,605 and the Division has paid premiums of \$7,516, \$10,267, and \$11,622, which represent 24.6%, 53.2%, and 51.4% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. At June 30, 2010, the liability related to OPEB costs was \$44,656.

NOTE 15: RISK MANAGEMENT

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

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

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

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

NOTE 16: SUBSEQUENT EVENTS

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 \$38,388. This bond issue refunds Series 1998 and Series 2001 General Obligation State Road Bonds with cumulative outstanding principal of \$37,730, and will result in a net present value savings of \$4,265 over the life of the bond issue. The effects of this transaction are not reflected in the accompanying financial statements.

S
T
A
T
I
S
T
I
C
A
L



WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

Statistical Section 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.

Net Assets by Component	60
Changes in Net Assets	62
Changes in Fund Balance of Governmental Fund	64
Fund Balance, Governmental Fund	66

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

Tax and License Fee Revenue by Source	68
Fuel and Privilege Tax Rates	69

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.

Ratios of Outstanding Debt by Type	70
------------------------------------	----

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

Demographic Statistics of West Virginia	71
Principal Employers	72

Operating Information – These schedules assist the reader in evaluating the size, efficiency, and effectiveness of the Division.

Employees by Program	74
Highway Construction and Improvement, Total Projects Authorized	76
Highway Construction and Improvement, Total Projects Authorized by Type	77
Roadway Projects – System Expansion Only	78
Roadway Resurfacing Projects	79
Total Highway Mileage by Category	80

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

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

	Year Ended June 30			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Governmental Activities				
Invested in capital assets, net of related debt	\$ 7,358,147	\$ 7,144,763	\$ 6,886,996	\$ 6,592,210
Restricted	17,035	18,119	17,892	13,975
Unrestricted	152,578	189,225	287,611	296,681
Total governmental activities net assets	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	<u>\$ 7,192,499</u>	<u>\$ 6,902,866</u>

Note: The Division of Highways has elected to report retroactively back to the year 2002, which was the year that GASB 34 was implemented.

Year Ended June 30

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

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

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

	Year Ended June 30			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues				
Governmental activities:				
General Revenues				
Motor fuel excise tax	\$ 393,557	\$ 391,903	\$ 395,641	\$ 364,550
Automobile privilege tax	147,466	141,930	169,095	171,429
Investment and interest income	(457)	1,919	9,691	9,652
Payments from primary government	41,318	27,924	18,843	
Miscellaneous revenues	25,012	28,647	36,479	37,459
Total General Revenues	<u>606,896</u>	<u>592,323</u>	<u>629,749</u>	<u>583,090</u>
Program Revenues				
Capital grants and contributions:				
Federal aid	532,020	460,780	398,223.00	392,533
Industrial access roads	3,000	3,010	2,806.00	3,126
Charges for services:				
Motor vehicle registration fees	87,600	87,255	86,166.00	86,840
Special fees and permits	5,793	5,958	5,954.00	5,263
Total Program Revenues	<u>628,413</u>	<u>557,003</u>	<u>493,149</u>	<u>487,762</u>
Total governmental revenues	<u>1,235,309</u>	<u>1,149,326</u>	<u>1,122,898</u>	<u>1,070,852</u>
Expenses				
Governmental activities:				
Road maintenance				
Expressway, trunkline & feeder & SLS	319,219	306,686	282,337	262,684
Contract paving & secondary roads	62,542	108,779	92,331	42,785
Small bridge repair & replacement	10,416	29,880	17,402	14,002
Litter control program	1,688	1,692	1,684	1,663
Depreciation	17,951	17,046	16,892	17,416
Other road operations				
Interstate highways	86,148	39,292	11,735	11,514
Appalachian highways	5,482	7,567	3,276	3,994
Other federal aid programs	129,913	87,618	61,495	82,182
Non federal aid improvements	5,500	465	2,692	9,407
Industrial Access Roads	3,121	2,776	2,891	1,407
Depreciation	292,602	287,969	269,805	257,292
General and administration				
Support and administrative operations	55,956	47,692	50,720	27,108
Claims	11,172	(4,196)	7,308	(3,000)
Costs associated with DMV	31,990	30,358	28,884	35,250
Interest on long-term debt	22,514	22,730	23,692	22,977
Unallocated depreciation	3,442	3,364	3,262	3,251
Total governmental expenses	<u>1,059,656</u>	<u>989,718</u>	<u>876,406</u>	<u>789,932</u>
Change in net assets	175,653	159,608	246,492	280,920
Effect of adoption of accounting principle	-	-	43,141	-
Net assets, beginning	<u>7,352,107</u>	<u>7,192,499</u>	<u>6,902,866</u>	<u>6,621,946</u>
Net assets, ending	<u>\$ 7,527,760</u>	<u>\$ 7,352,107</u>	<u>\$ 7,192,499</u>	<u>\$ 6,902,866</u>

Year Ended June 30

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

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

**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
LAST NINE FISCAL YEARS**

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

	Year Ended June 30			
	2010	2009	2008	2007
Revenues				
Taxes				
Gasoline and motor carrier	\$ 393,557	\$ 391,903	\$ 395,641	\$ 364,550
Automobile privilege	147,466	141,930	169,095	171,429
Industrial access roads	3,000	3,010	2,806	3,126
License, fees and permits				
Motor vehicle registrations and licenses	87,600	87,255	86,166	86,840
Special fees and permits	5,793	5,958	5,954	5,263
Federal aid				
Interstate highways	112,435	121,087	80,203	56,801
Appalachian highways	81,840	73,894	80,111	93,552
Other federal aid programs	337,746	265,799	237,909	242,180
Investment and interest income, net of arbitrage rebate	(457)	1,919	9,692	9,652
Miscellaneous revenues	25,012	28,649	36,479	37,459
Total Revenues	1,193,992	1,121,404	1,104,056	1,070,852
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder,	318,389	312,984	283,726	258,720
Contract paving and secondary roads	62,542	108,779	92,331	42,785
Small bridge repair and replacement	27,638	47,813	22,480	17,100
Litter control program	1,688	1,692	1,684	1,663
Support and administrative operations	96,251	67,340	61,962	55,911
Division of Motor Vehicles operations	31,990	30,358	28,884	34,754
Claims	497	724	629	144
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	125,499	144,799	95,599	70,926
Appalachian highways	102,626	104,017	110,006	132,747
Other federal aid programs	426,980	361,965	358,353	348,650
Nonfederal aid construction and road op.	26,714	33,448	14,791	20,365
Industrial access roads	3,121	2,776	2,891	1,407
Debt service				
Bond Issue Costs	4	5	-	-
Principal	52,435	40,635	38,940	18,150
Interest	25,134	24,110	25,803	23,442
Total Expenditures	1,301,508	1,281,445	1,138,079	1,026,764
Excess (deficiency) of revenues over expenditures	(107,516)	(160,041)	(34,023)	44,088
Other financing sources (uses)				
Proceeds from issuance of debt		80,964	-	112,097
Transfers in	41,318	-	12,931	-
Transfers out	-	-	-	-
Intergovernmental	-	27,924	-	-
Refunding bonds issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	41,318	108,888	12,931	112,097
Prior period adjustment	(14,100)	-	-	-
Net change in fund balance	\$ (80,298)	\$ (51,153)	\$ (21,092)	\$ 156,185
Debt Service as a percentage of noncapital expenditures	11%	9%	11%	8%

Year Ended June 30

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>
\$	330,538	\$	320,891	\$	303,934	\$	296,842	\$	300,964
	170,484		178,763		173,225		169,431		180,472
	3,016		2,351		3,465		1,891		3,914
	87,534		86,466		81,577		85,880		87,380
	4,290		4,554		4,461		3,965		4,173
	53,359		64,114		51,239		44,372		55,825
	104,228		101,247		126,286		168,789		161,088
	271,996		275,218		247,122		194,503		216,243
	4,701		1,906		1,542		3,655		8,148
	53,255		25,589		15,165		18,846		15,062
	1,083,401		1,061,099		1,008,016		988,174		1,033,269
	238,425		247,456		246,648		238,591		228,456
	48,345		46,090		36,451		43,417		41,536
	22,099		18,699		19,492		28,749		25,603
	1,744		1,688		1,637		1,492		1,595
	75,050		56,242		51,038		57,655		70,927
	34,346		34,544		35,145		34,194		32,029
	397		416		561		595		15
	69,406		75,030		59,992		54,733		67,992
	156,141		125,231		154,471		194,507		198,175
	354,562		350,464		318,032		262,481		295,131
	20,825		31,725		41,810		65,658		87,140
	5,475		1,822		1,967		523		2,224
	-		-		-		-		-
	19,920		28,060		23,070		22,040		21,485
	23,098		18,941		26,952		27,979		29,305
	1,069,833		1,036,408		1,017,266		1,032,614		1,101,613
	13,568		24,691		(9,250)		(44,440)		(68,344)
	-		-		-		-		114,172
	-		15		-		-		35,991
	-		(15)		-		-		(35,991)
	-		321,405		-		-		-
	-		(321,405)		-		-		-
	-		-		-		-		114,172
	-		-		-		-		-
\$	13,568	\$	24,691	\$	(9,250)	\$	(44,440)	\$	45,828
	8%		8%		9%		10%		6%

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

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

	Fiscal Year			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Fund				
Nonspendable for inventories	\$ 37,157	\$ -	\$ -	\$ -
Unassigned	180,285	-	-	-
Reserved for inventories	-	39,881	33,040	33,259
Unreserved	-	218,945	320,030	272,736
Total General Fund	<u>\$ 217,442</u>	<u>\$ 258,826</u>	<u>\$ 353,070</u>	<u>\$ 305,995</u>
All Other Governmental Funds				
Restricted, capital projects fund	\$ 18,028	\$ -	\$ -	\$ -
Reserved, capital projects fund	-	56,942	13,851	82,018
Total all funds	<u>\$ 235,470</u>	<u>\$ 315,768</u>	<u>\$ 366,921</u>	<u>\$ 388,013</u>

Note: The Division of Highways has early implemented GASB 54.

The Division of Highways has elected to report retroactively back to the year 2002, which was the year that GASB 34 was implemented.

Fiscal Year				
<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
34,592	31,459	29,462	27,461	30,273
197,236	186,801	164,092	143,928	133,303
<u>\$ 231,828</u>	<u>\$ 218,260</u>	<u>\$ 193,554</u>	<u>\$ 171,389</u>	<u>\$ 163,576</u>
\$ -	\$ -	\$ -	\$ -	-
-	-	15	31,430	83,683
<u>\$ 231,828</u>	<u>\$ 218,260</u>	<u>\$ 193,569</u>	<u>\$ 202,819</u>	<u>\$ 247,259</u>

DIVISION OF HIGHWAYS

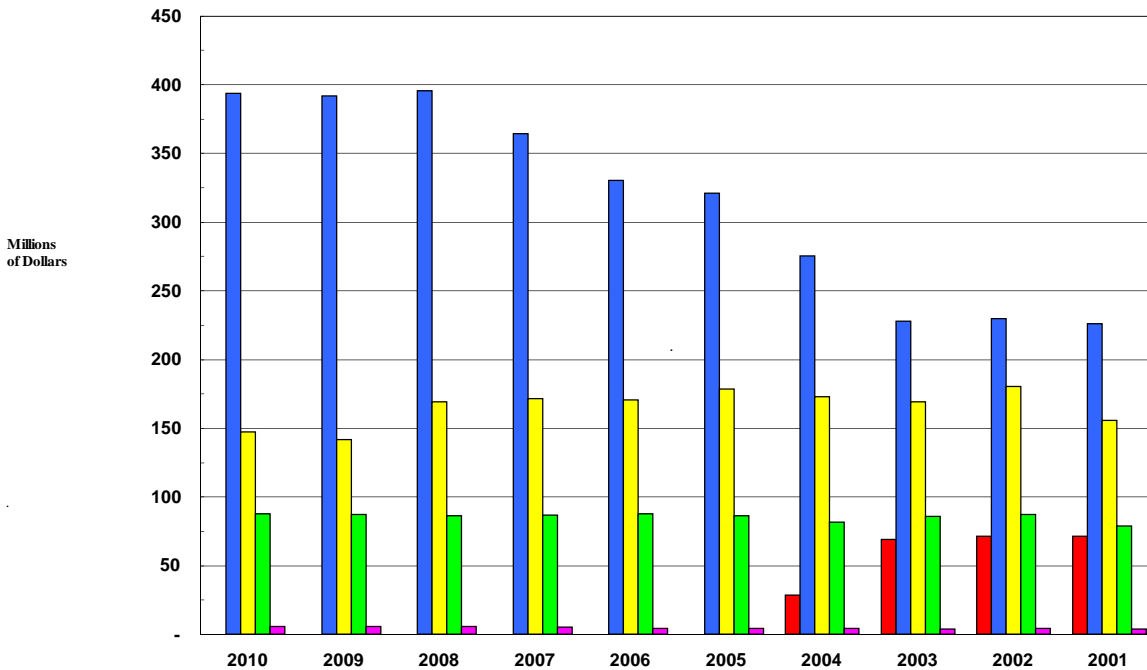


TAX AND LICENSE FEE REVENUE BY SOURCE ⁽¹⁾
 Last Ten Fiscal Years
 (Amount expressed in thousands)

Fiscal Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Gasoline/Motor Carrier	393,557	\$391,903	\$395,641	\$364,550	\$330,538	\$320,891	\$275,471	\$227,793	\$229,650	\$225,946
Automobile Privilege	147,466	141,930	169,095	171,429	170,484	178,763	173,225	169,431	180,472	155,623
Registration/License Fees	87,600	87,255	86,166	86,840	87,534	86,466	81,577	85,880	87,380	78,745
Special Fees & Permits	5,793	5,958	5,954	5,263	4,290	4,554	4,461	3,965	4,173	4,063
Motor Fuel	-	-	-	-	-	-	28,463	69,049	71,314	71,521
Total	\$634,416	\$627,046	\$656,856	\$628,082	\$592,846	\$590,674	\$563,197	\$556,118	\$572,989	\$535,898

(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.



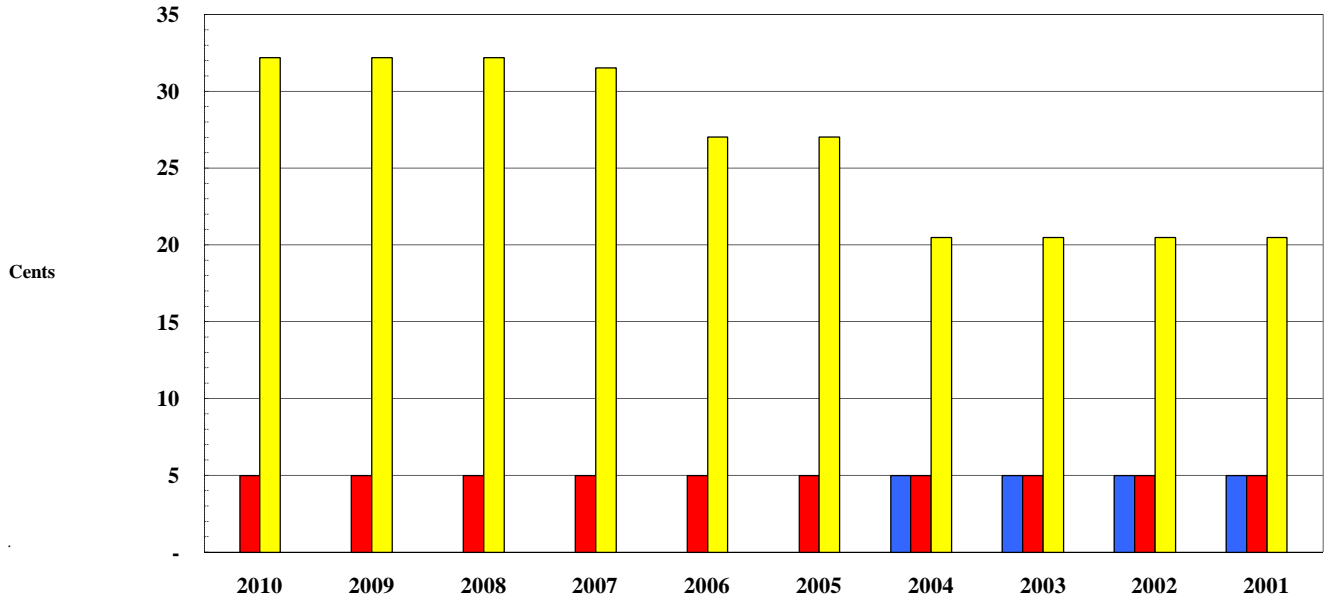
DIVISION OF HIGHWAYS



FUEL AND PRIVILEGE TAX RATES
Last Ten Fiscal Years

Fiscal Year		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Excise Motor Fuel(1) (cents per gallon)	■	-	-	-	-	-	-	5	5	5	5
Automobile Privilege(2) (cents per dollar)	■	5	5	5	5	5	5	5	5	5	5
Motor Fuel Excise Tax(1) (cents per gallon)	■	32.2	32.2	32.2	31.5	27.0	27.0	20.5	20.5	20.5	20.5

- (1) On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate of 11.7 cents per invoiced gallon as of January 1, 2010.
- (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)

Fiscal Year	General Obligation Bonds	Revenue Notes	Total Primary Government	Percentage of Personal Income*	Per Capita*
2010	\$ 339,515	\$ 144,315	\$ 483,830	0.83%	265.87
2009	371,105	165,160	536,265	0.93%	295.48
2008	401,190	98,875	500,065	0.92%	276.10
2007	429,845	109,160	539,005	1.04%	298.25
2006	447,995	-	447,995	0.93%	248.35
2005	467,915	-	467,915	1.01%	259.48
2004	494,430	-	494,430	1.13%	274.34
2003	517,500	-	517,500	1.19%	287.59
2002	539,540	-	539,540	1.29%	299.98
2001	451,025	-	451,025	1.14%	249.60

* 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
2009	1,819,777	58,631,000	32,219	7.9%	40.5
2008	1,814,873	57,411,000	31,634	4.3%	40.6
2007	1,811,198	54,555,000	30,121	4.3%	40.4
2006	1,807,237	51,894,000	28,715	4.6%	40.7
2005	1,803,920	48,139,000	26,686	4.9%	40.7
2004	1,803,302	46,497,000	25,784	5.3%	40.2
2003	1,802,238	43,841,000	24,326	6.0%	39.9
2002	1,799,411	43,312,000	24,070	5.9%	39.5
2001	1,798,582	41,902,000	23,297	5.2%	39.3
2000	1,806,962	39,438,000	21,826	5.5%	39.0

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 Nine Years Ago**

	Largest Employer Rank			
	2010	2009	2008	2007
Wal-Mart Associates, Inc.	1	1	1	1
WV United Healthcare	2	2	2	2
Charleston Area Medical Center, Inc.	3	3	3	3
Kroger	4	4	4	4
American Electric Power	5	5	6	5
Consolidation Coal Company	6	9	10	-
Lowe's Home Centers, Inc.	7	10	8	7
St. Mary's Hospital	8	7	9	10
Res-Care, Inc.	9	-	-	-
Mylan Pharmaceuticals, Inc	10	-	-	-
Pilgrim's Pride Corporation of West Virginia	-	-	-	9
Verizon	-	-	-	-
E I DuPont De Nemours & Company	-	-	-	-
ISG Weirton Inc.	-	-	-	-
Union Carbide Corporation/Dow Corporation	-	-	-	-
Allegheny Energy Service Corporation	-	-	-	-
Eldercare Resources Corportaion	-	6	7	6
CSX/CSX Hotels Inc. (The Greenbrier and railroad)	-	8	5	8

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

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

Largest Employer Rank

2006	2005	2004	2003	2002	2001
1	1	1	1	1	1
2	3	3	2	2	2
3	2	2	3	3	3
4	4	4	4	5	6
6	6	7	-	9	-
8	8	-	-	-	-
7	-	-	-	-	-
10	-	-	10	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9	9	9	8	8	8
-	7	8	7	7	7
-	10	6	5	4	5
-	-	-	-	-	10
-	-	10	9	10	9
-	-	-	-	-	-
5	5	5	6	6	4

**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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Maintenance	3,534	3,539	3,372	3,340
Construction	927	898	888	907
General and administration	298	306	296	313
Total	4,759	4,743	4,556	4,560

Source: Division of Highways Budget Office.

Employees as of June 30

<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
3,327	3,472	3,504	3,604	3,616	3,523
961	981	1,007	1,033	1,033	1,042
332	355	358	367	367	341
<u>4,620</u>	<u>4,808</u>	<u>4,869</u>	<u>5,004</u>	<u>5,016</u>	<u>4,906</u>

DIVISION OF HIGHWAYS

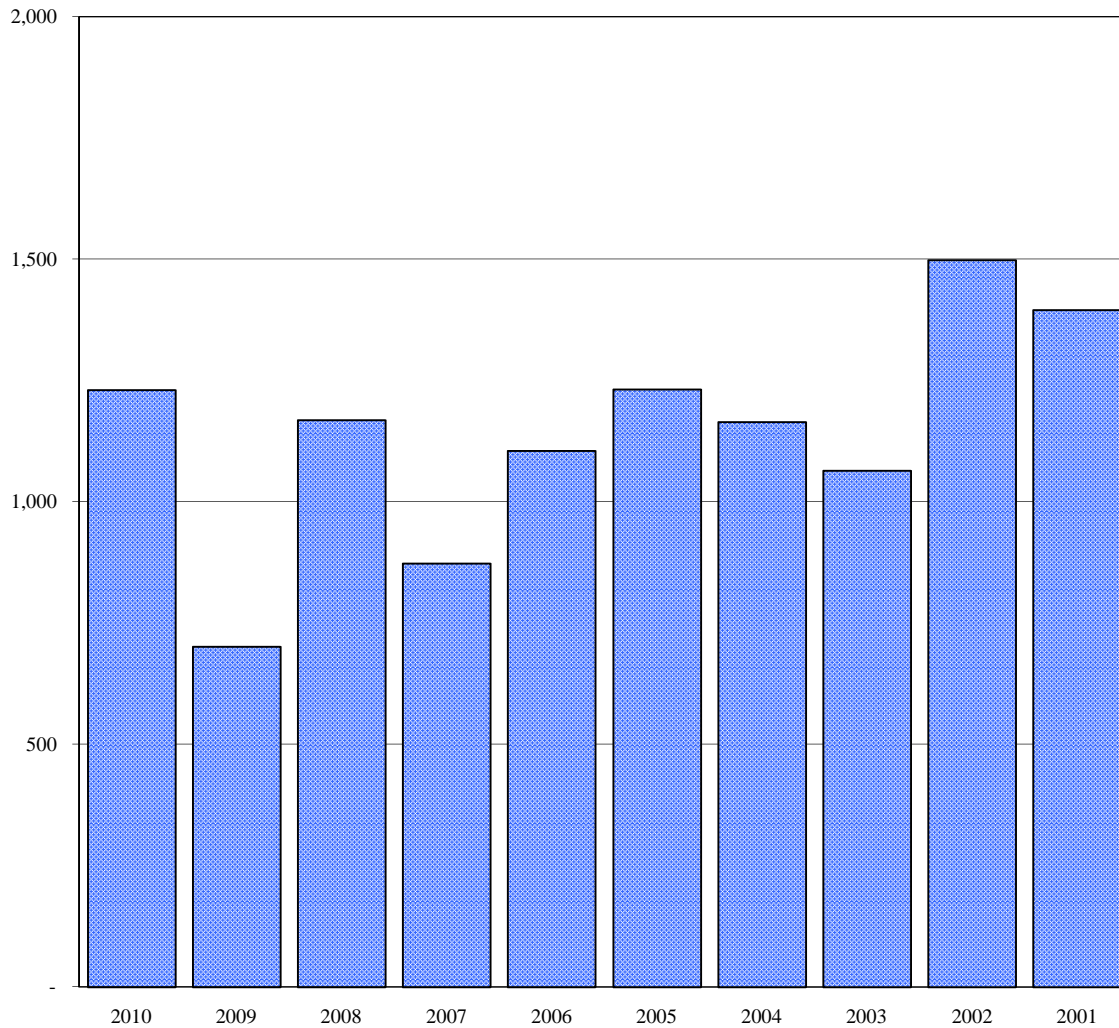


**HIGHWAY CONSTRUCTION AND IMPROVEMENT
TOTAL PROJECTS AUTHORIZED**

Last Ten Fiscal Years

Fiscal Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Total Projects
Projects	1,231	702	1,169	874	1,105	1,232	1,165	1,064	1,499	1,396	11,437

Number of
Projects



DIVISION OF HIGHWAYS



HIGHWAY CONSTRUCTION AND IMPROVEMENT

TOTAL PROJECTS AUTHORIZED BY TYPE

Last Ten Fiscal Years

Federal Aid
(Number of Projects)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Bond	0	0	0	0	0	0	0	1	0	0
Interstate Construction	6	5	11	10	9	4	5	4	9	2
Interstate Renovation	20	16	18	22	15	25	29	26	23	20
Non-Interstate Other	44	2	3	4	62	68	65	68	62	44
ARRA	70	73	0	0	0	0	0	0	0	0
Appalachian Development	16	19	19	19	25	12	13	14	25	22
Other Bridge	51	27	24	31	33	40	31	36	62	14
Miscellaneous	205	194	125	137	123	200	208	149	172	78
Total	412	336	200	223	267	349	351	298	353	180

Non-Federal Aid
(Number of Projects)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Maintenance	415	50	444	321	418	445	424	335	448	522
Bridge Replacement and Renovation	26	37	48	32	41	54	29	48	73	50
Miscellaneous Bridge Work	63	20	90	30	40	35	20	36	44	44
Industrial Access Roads	8	4	4	6	7	10	5	7	15	6
Bond	0	0	0	0	0	0	0	11	21	67
Roadway Renovation and Improvement	307	255	383	262	332	339	336	329	545	527
Total	819	366	969	651	838	883	814	766	1146	1216
Grand Total	1231	702	1169	874	1105	1232	1165	1064	1499	1396

TOTAL AUTHORIZED PROJECTS = 11,437

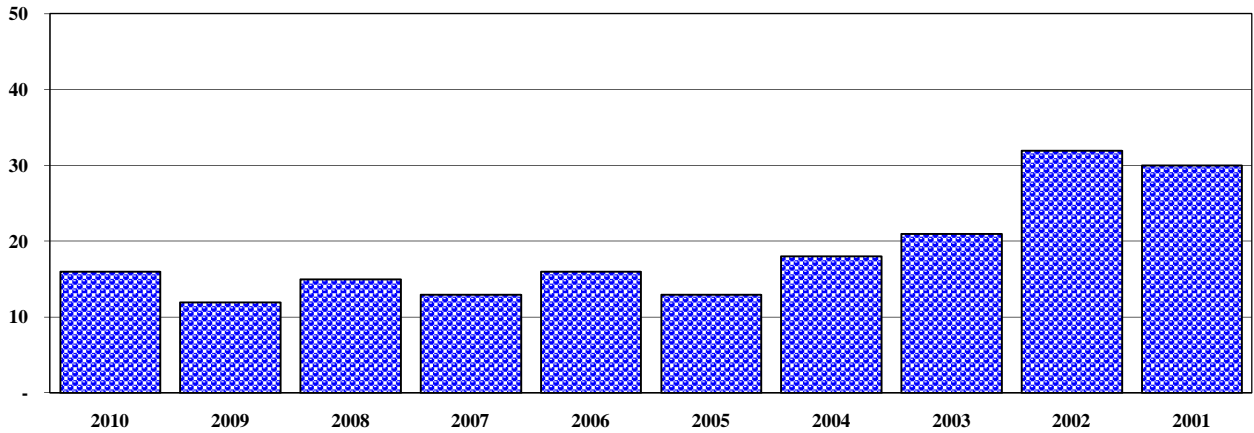
DIVISION OF HIGHWAYS



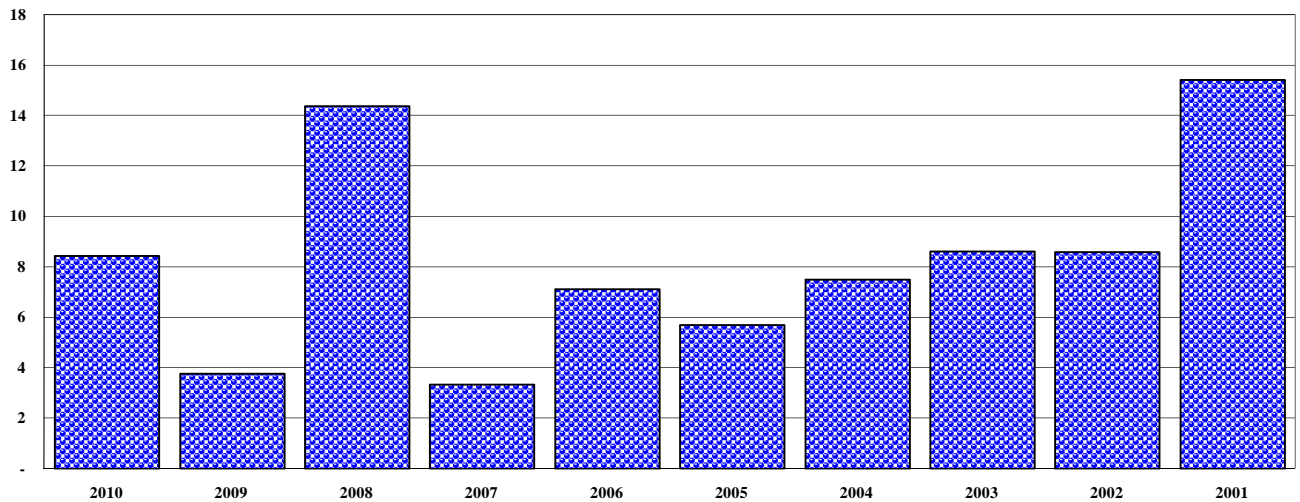
ROADWAY PROJECTS - SYSTEM EXPANSION ONLY
Last Ten Fiscal Years

Fiscal Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Number of Projects	16	12	15	13	16	13	18	21	32	30
Number of Miles	8.44	3.77	14.39	3.34	7.13	5.69	7.49	8.62	8.60	15.42

Number of Projects



Number of Miles



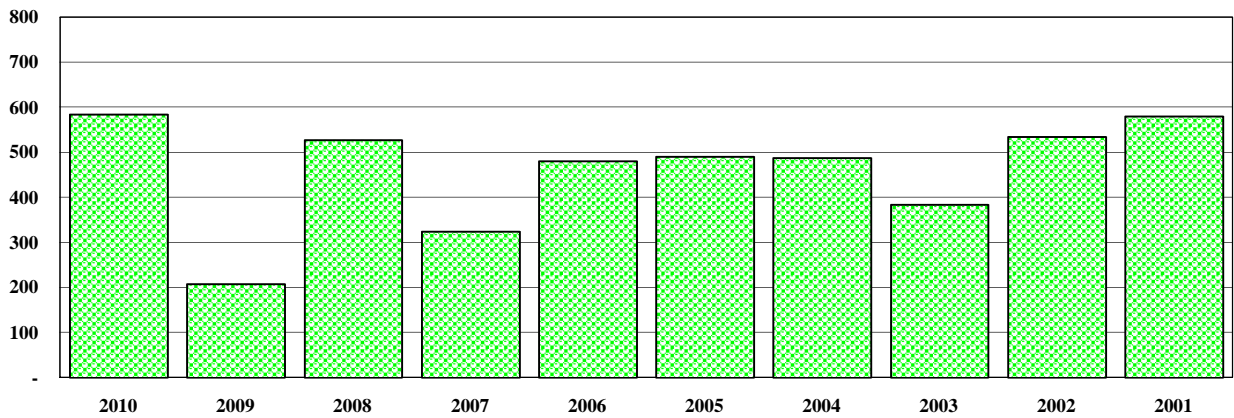


DIVISION OF HIGHWAYS

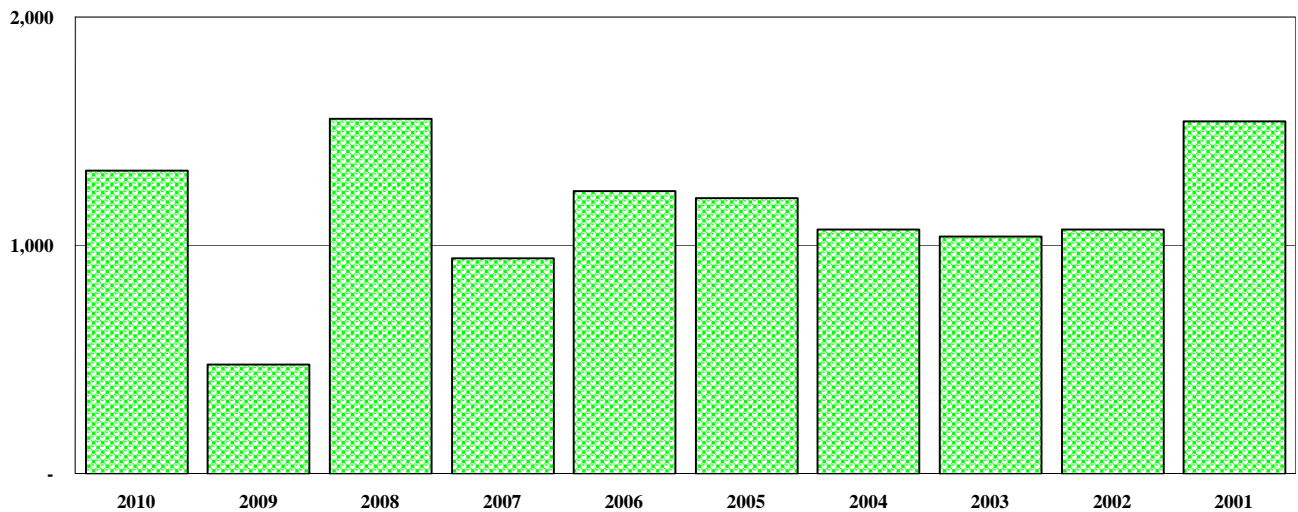
ROADWAY RESURFACING PROJECTS
Last Ten Fiscal Years

Fiscal Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Number of Projects	584	208	527	324	481	490	488	384	534	580
Number of Miles	1,328	479	1,557	944	1,239	1,208	1,070	1,040	1,071	1,545

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	1,807
W.V. Routes	3,642
County Routes	28,877
Other	<u>1,087</u>
Total Miles	35,881

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

	<u>Rural Miles</u>	<u>Urban Miles</u>
<u>Interstate Highways (Part of National Highway System)</u>	315 *	153 **
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.		
* Includes 4 miles of one way connecting ramps		
** Includes 1 mile of one way connecting ramps		
<u>Other National Highway System</u>	1,046	201
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.		
<u>Other Federal-Aid Highways</u>	7,001	1,346
All other roads on which federal Highway funds may be expended.		
Sub-total miles	<u>8,362</u>	<u>1,700</u>
Total Miles	10,062	