

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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2002
AND
INDEPENDENT AUDITORS' REPORTS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 18
BASIC FINANCIAL STATEMENTS	19
Government-wide Financial Statements	
Statement of Net Assets	20
Statement of Activities	21
Fund Financial Statements	
Balance Sheet - Governmental Funds	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund	26
Notes to the Financial Statements	27 - 52
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	55
COMPLIANCE AND INTERNAL CONTROL REPORTS	
Independent Auditors' Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of General Purpose Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	57
Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards	59
Schedule of Expenditures of Federal Awards	61
Notes to the Schedule of Expenditures of Federal Awards	62
Summary Schedule of Prior Year Single Audit Findings	63
Schedule of Findings and Questioned Costs	66



Business Advisors and Consultants

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, as of and for the year ended June 30, 2002, which collectively comprise the West Virginia Department of Transportation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Parkways, Economic Development and Tourism Authority which represents 95 percent and 92 percent, respectively of the assets and revenues of the proprietary discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the Parkways, Economic Development and Tourism Authority is based solely on the report of the other auditors.

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

As discussed in Note 1, the financial statements of the West Virginia Department of Transportation are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of West Virginia that is attributable to the transactions of the West Virginia Department of Transportation. They do not purport to, and do not, present fairly, the financial position of the State of West Virginia as of June 30, 2002 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the West Virginia Department of Transportation has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2002.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, West Virginia 25301
Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008 • E-mail: cpa@suttlecpas.com

Members of: American Institution of Certified Public Accountants • Private Companies Practice Section • West Virginia Society of Certified Public Accountants

A Professional Limited Liability Company
www.suttlecpas.com

POLARIS™ INTERNATIONAL

CPA

The management's discussion and analysis on pages 5 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2002 on our consideration of the West Virginia Department of Transportation's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Department of Transportation's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 31, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

6

This section of the West Virginia Department of Transportation (Department) annual financial report presents our discussion and analysis of the Department's financial performance during the fiscal year that ended June 30, 2002. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide:

Net Assets - The assets of the Department related to its governmental activities exceeded its liabilities at June 30, 2002 by \$5.3 billion (presented as "total net assets"). Of this amount, \$98 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Department's ongoing obligations to citizens and creditors.

Changes in Net Assets - The Department's total net assets at June 30, 2002 decreased by \$43 million (a .80 % decrease) in total net assets from June 30, 2001.

Revenues - Total revenues increased \$50 million or 5.00%. The amount of automobile privilege tax revenue increased by \$25 million or 15.97%.

Expenditures - Total expenditures decreased \$45 million or 4.00%. Expenditures excluding noncapitalized construction expenditures increased by \$41 million or 6.57%.

Fund Highlights:

Government Funds - Fund Balances - As of the close of fiscal year 2002, the Department's governmental funds reported combined total fund equity of \$257 million, an increase of \$46.9 million in comparison with the prior year. Of this total amount, \$142 million represents the "unreserved fund balances" with \$133 million being in the general fund. This is roughly 12.75 % of the total governmental fund expenditures for the year.

Long-term Debt:

The Primary Government's total long-term debt obligations, net of bond premiums, increased by \$92 million (20.24%) during the current fiscal year. The key factor in the increase was the July 2001 sale of \$110 million in Safe Road Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary schedules) and other supplemental information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the Department – the Government-Wide Financial Statements and the Fund Financial statements. These financial statements also include the Notes to the Financial statements that explain some of the information in the financial statements and provide more detail.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

7

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS- CONTINUED

Government-wide Statements (reporting the Department as a whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Department, as a whole, and about its activities. They are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year 2002. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave) or that resulted in cash flows in previous periods and are recorded as assets or liabilities in the statement of net assets (e.g. cost incurred to purchase or construct capital assets, bond proceeds, and bond issue costs).

Both of the above financial statements have separate sections for two different types of programs or activities. These activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including the maintenance, construction and reconstruction of the State's roads and administration of the State's Transit program, as well as the collection of certain vehicle fees and licensing of the State's drivers.

Discretely Presented Component Units – These are operations for which the Department has financial accountability but they have certain independent qualities as well. The Department's discretely presented component units are the State Rail Authority and the Parkways, Economic Development and Tourism Authority. Each of the Component units are presented separately in the accompanying financial statements.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Department's component units are presented in the notes to the financial statements.

The report includes two schedules that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with the governmental activities (accrual accounting) on the appropriate government wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported in governmental fund statements.
- Deferred issue costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as bonds, compensated absences, litigation and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are recorded as expenditures on the governmental fund statements.
- Bond proceeds, including any premiums on debt issued, result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

8

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS- CONTINUED

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

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department has only one category of funds, governmental funds. Governmental funds focus on how money flows into and out of funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the Department's general government operations and the basic services it provides. Government fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Department has seven governmental funds, of which two are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Detailed financial information for non-major governmental funds is presented in combining financial statements described below. Governmental funds include:

Major Funds:

- The State Road fund, which is the Department's general fund, reflects the ongoing operations of the Department that are financed from the designated tax, license, registration and other fees, as well as the federal share of projects that qualify for federal reimbursement.
- The Capital Projects fund reflects the expenditure of proceeds from bond offerings.

Non-major Funds:

- The Debt Service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The Division of Motor Vehicles collects registration fees, license fees, and automobile privilege taxes for expenditure by the Division of Highways, as well as other motor vehicle fees. The expenditures related to the collection of registration fees, license fees, and automobile privilege taxes are recorded in the State Road Fund within the Division of Highways.
- The Division of Public Transit is designated as the agency of the State responsible for administering all federal and state programs relating to public transportation. The Division of Public Transit assists in the development of improved public transportation facilities, services, equipment, and methods.
- The West Virginia Aeronautics Commission has general supervision and control over all airports used for commercial purposes, all state and municipal airports, all air schools, and all phases of aeronautics within the State.
- The West Virginia Public Port Authority assesses specific transportation needs and considers feasibility studies for the purpose of determining the best site locations for transportation centers, terminals, ports and harbors, and foreign trade zones.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

Primary Government:

The Department's net assets decreased by approximately \$43 million or .80%. Prior year information is not available to present a complete comparison to the prior year. In future years, a full comprehensive financial analysis will be presented. The following summarizes the Department's net assets at year-end (amounts in thousands).

Net Assets as of June 30, 2002

ASSETS	
Current assets	
Cash and cash equivalents	\$ 216,940
Other assets	164,073
Total current assets	<u>381,013</u>
Non-current assets	
Capital assets, net of accumulated depreciation	
Buildings, furniture and fixtures	40,054
Land and land improvements	18,122
Equipment	69,771
Roads, bridges and right of way	5,280,688
Work in progress	270,790
Total capital assets	<u>5,679,425</u>
Other non-current assets	5,645
Total assets	<u>6,066,083</u>
LIABILITIES	
Current liabilities	
Other current liabilities	122,068
Current maturities of long term obligations	43,689
Total current liabilities	<u>165,757</u>
Non-current liabilities	
Claims and judgments	4,095
Compensated absences	57,696
General obligation bonds	520,955
Total non-current liabilities	<u>582,746</u>
Total liabilities	<u>748,503</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,219,277
Unrestricted	<u>98,303</u>
Total net assets	<u>\$ 5,317,580</u>

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

10

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE - CONTINUED

Primary Government (continued):

The largest component (98.15%) of the Department's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The remaining portion, unrestricted net assets, may be used at the Department's discretion.

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

Revenues	
Taxes	\$ 485,834
Licenses, fees and permits	95,115
Federal aid	442,237
Investment and interest income	8,173
Miscellaneous revenues	15,330
Payments from primary governments	<u>2,965</u>
Total revenues	<u>1,049,654</u>

Expenses	
Road maintenance	313,035
Other road operations	649,364
General and administration	99,718
Interest on long-term debt	28,168
Unallocated depreciation	<u>2,327</u>
Total expenses	<u>1,092,612</u>

Change in net assets	(42,958)
Net assets, beginning	<u>5,360,538</u>
Net assets, ending	<u>\$ 5,317,580</u>

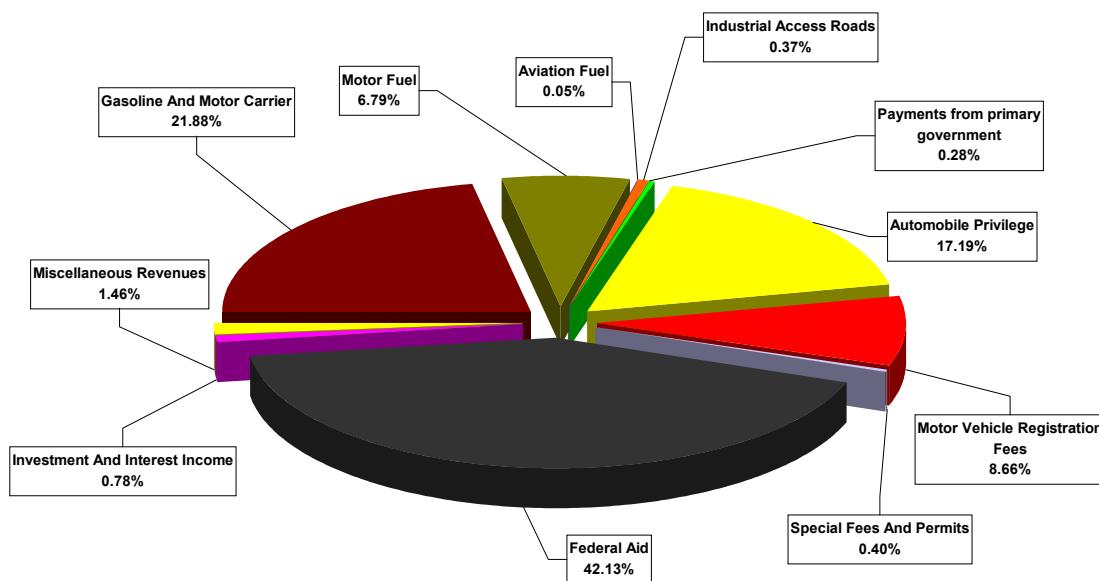
**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

11

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE – CONTINUED

Primary Government (continued):

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



Total revenues increased by approximately \$50 million. Total tax revenues increased by approximately \$33 million with the majority of the increase (\$25 million or 76%) due to increases in the privilege tax. Federal aid revenue increased by approximately \$20 million (4.7%). The following summarizes revenues for the year ended June 30, 2002 and June 30, 2001 (amounts in thousands):

	June 30, 2002	June 30, 2001	Increase (decrease)	% Increase
Gasoline and motor carrier road tax	\$ 229,650	\$ 221,757	\$ 7,893	3.56%
Wholesale motor fuel	71,314	71,521	(207)	(.29%)
Aircraft fuel	484	438	46	10.50%
Industrial access roads	3,914	4,189	(275)	(6.56%)
Payments from primary governments	2,965	3,623	(658)	(18.16)
Automobile privilege	180,472	155,623	24,849	15.97%
Motor vehicle registration fees	90,942	82,333	8,609	10.46%
Special fees and permits	4,173	4,063	110	2.71%
Federal aid	442,237	422,467	19,770	4.68%
Investment and interest income	8,173	13,469	(5,296)	(39.32%)
Miscellaneous revenues	15,330	20,145	(4,815)	(23.90%)
	\$ 1,049,654	\$ 999,628	\$ 50,026	5.00%

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

12

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE – CONTINUED

Primary Government (continued):

The Department of Transportation's primary sources of revenue for funding of ongoing administration of the Department, general maintenance and construction of the State Road System, and providing resources to match available federal funds is derived from fuel taxes, automobile privilege tax, motor vehicle registration and license fees, net of costs incurred to maintain the Department of Motor Vehicles, which collects a majority of the non tax fee revenues. Over the past several years, the Department has benefited from the extended strong national and state economies.

Tax collections, especially of privilege tax, exceeded official estimates by a significant amount, allowing the Department to undertake additional projects and expand customer services. Unfortunately, both the state and national economies have slowed dramatically. Through the end of the 2002 fiscal year revenues continued to approximate estimates, but revenue projections through the fiscal year 2006 reflect only minimal growth in collections. As a consequence, many programs that operate from the Department will experience little, if any, increase in the foreseeable future and some programs may be funded at lower levels.

The Department also relies on federal funds as a source of revenue. The "Transportation Equity Act for the 21st Century" (TEA 21) passed by Congress and signed by the President in 1998, established a new six-year highway transit bill. West Virginia's six-year total will approach \$1.8 billion. The Department expects to receive regular federal funds of \$209 million each fiscal year, compared to \$159 million yearly under previous legislation. Additional special funding is also included. The Department expects to receive a total of \$542 million of added funding over the life of the legislation. The federal aid is obtained in the form of reimbursable grants. The recognition of revenue under these grants occurs when expenditures are incurred on specific projects that have qualified for federal participation. While TEA 21 and special spending authorizations result in funds available for obligation by the federal government in specific years, and the Department expects to continue to fully obligate available funds, thus ensuring that all available federal dollars are received by the Department, the timing of revenue recognition for financial reporting is dependent on the timing of completion of specific construction projects. TEA 21 is due to expire in 2003. The United States Congress is currently working on reauthorization of a new Highway Transit Bill (TEA 3). The results of the reauthorization are yet to be determined.

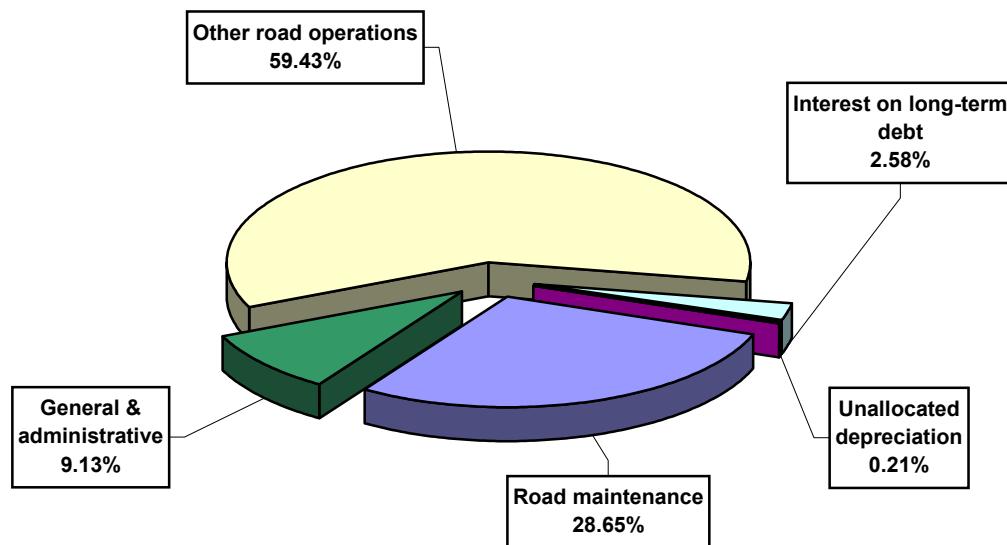
**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

13

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE – CONTINUED

Primary Government (continued):

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



Total expenditures decreased by approximately \$45 million (4.37%). The following summarizes expenditures for the years ended June 30, 2002 and June 30, 2001 (amounts in thousands):

	June 30, 2002	June 30, 2001	Increase (decrease)	% Increase (decrease)
Road maintenance	\$ 313,035	\$ 322,340	\$ (9,305)	(2.89%)
Other road operations	649,364	708,291	(58,927)	(8.32%)
General and administration	99,718	80,398	19,320	24.03%
Interest on long-term debt	28,168	24,797	3,371	13.59%
Unallocated depreciation	2,327	2,267	60	2.65%
	<hr/> <u>\$ 1,092,612</u>	<hr/> <u>\$ 1,138,093</u>	<hr/> <u>\$ (45,481)</u>	<hr/> <u>(4.00%)</u>

The significant increase in general and administrative expense is a result of the following:

- Upon retirement, the Department's employees may use accumulated sick leave to purchase health insurance premiums at a predetermined number of days per month of coverage or to extend their years of service credits for retirement purposes. The rising cost of premiums has resulted in a change in the actuarial assumptions related to the computation of the liability for this post retirement benefit. As premiums rise employees are more likely to choose to use accumulated sick leave to acquire insurance and less likely to extend service credits. The liability for accrued sick leave to be paid on retirement increased by approximately \$9 million.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

14

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE - CONTINUED

Primary Government (continued):

- The Department allocates the cost of employee benefits to the various functions (operations, construction, maintenance, etc.) by applying an additive rate to salary amounts charged to those functions. As of the last review of the additive rate the Department had under distributed these costs by approximately \$8 million. The additive rate is adjusted each year to reflect any over or under allocation so that these costs are allocated to the various projects and functions of the Department in succeeding years.

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

The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow and ice removal that is required in a given year. Operating divisions are allocated amounts for routine maintenance in the Department's annual plan. The State had a mild winter during the year ended June 30, 2002; however, the approximately \$12 million reduction in costs were used to perform other routine maintenance functions in the spring. Therefore, the decline in maintenance expenditures were not a result of the savings due to the mild winter as those savings were used to perform other routine maintenance functions.

The Department's expenditures for contract paving are more discretionary in nature and the level of contract paving during the year ended June 30, 2002 was approximately \$13 million less than the previous fiscal year. Department management elected to conserve funds by adjusting the level of contract paving that was carried out during the year ended June 30, 2002. This was in response to projected revenues increasing at a slower pace than expenses.

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

Discreetly Presented Component Units:

The State Rail Authority's operating revenues are not sufficient to provide adequate cash flows to meet regular operating needs. During the year ended June 30, 2002 the cash flows from operations were \$(391) thousand compared to \$(840) thousand in the prior year. The Authority funds capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled \$2.7 million a decline of \$225 thousand compared to prior year.

The West Virginia Parkways, Economic Development and Tourism Authority relies on toll revenues, revenues generated through its economic development activities (primarily the Caperton Center) and the operation of travel plaza restaurants and gas stations. Total revenues from these sources increased \$2.1 million or 3.62% for the fiscal year ended June 30, 2002. Operating expenses increased by \$1.4 million or 2.21% for the same period primarily due to a change in the method of accounting for transponders issued for use with the electronic toll collection system, scheduled increases in the maintenance contract for the electronic toll system, and increases in depreciation expense as a result of completion of new highway improvement projects. The Authority experienced net losses during fiscal years ended June 30, 2002 and 2001 but generated positive cash flows in excess of \$20 million in both years.

Further analysis of changes in the financial results of the discreetly presented component units are included in separately issued financial statements of the individual component units, which can be obtained from their respective administrative offices. Addresses and other additional information about the State's component units are presented in the notes to the financial statements.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002

15

FINANCIAL ANALYSIS OF THE DEPARTMENT'S MAJOR FUNDS

The Department completed the year with reported fund balances of \$257 million. Of this total amount, \$142 million, 55.36%, constitutes unreserved fund balances, which are available for appropriation for the general purposes of the funds. The remainder of the fund balances are reserved and are not available for new spending because they have already been dedicated for various commitments, such as capital outlay projects.

State Road Fund

The State Road Fund is the Department's General Fund. At the end of the 2002 fiscal year, unreserved fund balance of the General fund was \$133 million and reserved fund balance was \$30 million. Total fund balance increased slightly (3.9%) during the year primarily due to higher than anticipated tax revenues as discussed above in the financial analysis of the Department as a whole.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for road construction or reconstruction financed by the proceeds from the sale of Safe Road Bonds and matching federal highway funds on such projects. At June 30, 2002 the fund balance of the fund represented unexpended bond funds associated with the 2002 bond issue (discussed below). The projects to be constructed from the proceeds of these bonds have been programmed, and where applicable, the federal funds for the projects have been obligated.

State Road (General) Fund Budgetary Highlights

Since the Department is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, 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. Although average fuel consumption rates for motor vehicles have remained fairly constant over the past several years, any future changes in these rates would have a significant impact on revenue collections without changes to the tax rates or structure. For the sixth straight year, tax and fee revenue collections have increased over the previous year. Although there has been a downward turn to the national economy over the past few years, the effect of low interest rates and moves by major car manufacturers to increase automobile sales have resulted in increases in both privilege tax and motor vehicle registration fees. There has also been limited impact on fuel tax revenues.

The Department's budget included \$502 million in federal aid revenues to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9 and other major corridors including King Coal Highway, Coalfields Expressway, WV 2, WV 10, and WV 35. As previously discussed, the recognition of revenue under these grants occurs when expenditures are incurred on specific projects that have qualified for federal participation. 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. The budgeted amounts for federal aid revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project.

As a result of the above items, the original budget was amended. The most significant changes were to decrease anticipated federal aid expenditures by \$30 million.

Differences between the final budget and actual spending result principally from lower than expected expenditures on construction projects which occurred due to the estimated timing of expenditures on specific projects differing from actual construction schedules (approximately \$87 million), equipment revolving fund purchases that were not completed until the following fiscal year (approximately \$7 million), and the lower than expected maintenance expenditures (approximately \$30 million).

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

16

FINANCIAL ANALYSIS OF THE DEPARTMENT'S MAJOR FUNDS - CONTINUED

There were no over expenditures by the Department in appropriated funds. In addition, there were no over expenditures in specific budget line items.

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Department's revenue increases are not projected to keep pace with increases in costs related to retirement, health insurance, increased debt service and other increases that are non-discretionary in nature. As a result the Department will be required to reduce expenditures on programs that are discretionary and expenditures in these areas will be managed to ensure that the Department maintains a positive fund balance. The Fiscal 2003 budget reflects a budgeted decline in fund balances of approximately \$38 million. Management is taking all necessary steps to ensure that the fund balances of the Department are maintained at levels that are adequate to ensure the soundness of the Department and is confident that adequate discretionary items exist to permit them to continue to operate in a fiscally sound manner. However, the level of funding available and the increases in non-discretionary spending may impact the Department's ability to achieve all operational objectives.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2002, the Department had invested \$5.7 billion, net of accumulated depreciation, in a range of capital assets (see table below). Depreciation charges for the fiscal year totaled \$243 million.

**Capital Assets as of June 30, 2002
(net of depreciation, amounts in thousands)**

	2002	2001	% Change
Land - non infrastructure	\$ 14,585	\$ 13,685	6.58%
Buildings	39,373	36,828	6.91%
Furniture and fixtures	681	774	(12.02%)
Land improvements - non infrastructure	3,537	2,476	42.85%
Rolling stock	68,725	68,918	(.28%)
Shop equipment	375	513	(26.90%)
Scientific equipment	671	626	7.19%
Total capital assets excluding infrastructure	127,947	123,820	3.33%
Land – infrastructure	579,229	521,454	11.08%
Roads	3,871,849	3,828,990	1.12%
Bridges	829,610	704,605	17.74%
Construction in process - roads	228,271	348,094	(34.42%)
Construction in process - bridges	42,519	146,687	(71.01%)
Total infrastructure	5,551,478	5,549,830	.03%
Total capital assets	\$ 5,679,425	\$ 5,673,650	.10%

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

17

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Primary Government (Continued):

The limited increase in capital assets, net of depreciation, reflects the nature of the State's road and transit systems. While the Department continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$224 million in depreciation on the infrastructure. The Department expended \$249 million dollars during the year ended June 30, 2002 for additions to capital assets. Of this amount, \$226 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 \$392 million was reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Randolph and Hardy Counties, Corridor D in Wood County, upgrade of WV 10 in Logan County, upgrade of WV 2 in Brooke County, widening of I-64, and continued environmental studies on various projects in process.

Discreetly Presented Component Units:

As of June 30, 2002, the Discreetly presented component units had invested \$615 million, net of accumulated depreciation, in capital assets which primarily consisted of Rail Property, Toll Road infrastructure and the Caperton Center. Depreciation charges for the fiscal year totaled \$30 million. Capital assets declined by approximately 2.91% as \$12 million in capital improvements were offset by the current years depreciation.

Long-term Debt

Primary Government:

The Department has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2002 the Department had \$540 million in outstanding bonds. The amount outstanding increased by \$89 million (19.63%) due to the issuance of \$110 million in bonds during the year which was offset by principal payments of \$21 million.

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

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Better Highways 73 - All Bonds maturing on or before June 1, 2006	Not insured	Fitch: AA- Moody's: Aa3 S&P: AA-	\$ 18,660
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	204,080
Safe Roads 99A - All Bonds maturing on or before June 1, 2007	Not Insured	Fitch: AA- Moody's: Aa3 S&P: AA-	105,020
Safe Roads 00A - All Bonds maturing on or before June 1, 2020	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	32,290
Safe Roads 00A - Term Bond maturing on June 1, 2025	Insured by MBIA	Fitch: AAA Moody's: Aaa S&P: AAA	77,710

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

18

Long-term Debt (Continued)

Primary Government (Continued):

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Safe Roads 01A - Bonds maturing between June 1, 2005 to 2013	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA 93,465
Safe Roads 01A - Bonds maturing between June 1, 2002 to 2004	Not insured	Fitch: Moody's: S&P:	AA- Aa3 AA- 8,315

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

Discreetly Presented Component Units:

The State Rail Authority continued to amortize its outstanding debt and no additional activity occurred related to the Authority's indebtedness.

The amount of Parkway's outstanding debt is substantially the same at June 30, 2002 as it was in 2001. However, Parkway's refinanced approximately \$50 million in bonds during 2002 to take advantage of the low interest rate environment that existed during the year. Parkway's has entered into various derivative financial instruments, interest rate swap agreements and forward swap agreements, to enable them to issue variable rate debt instruments and mitigate risk associated with changes in interest rates.

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET ASSETS
JUNE 30, 2002
(amounts expressed in thousands)

20

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	
	<u>Governmental Activities</u>	<u>Parkways, Economic Development and Tourism Authority</u>	<u>State Rail Authority</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 216,940	\$ 6,100	\$ 944
Short term investments		19,417	
Accounts receivable	64,267	1,291	41
Taxes receivable	60,343	-	-
Accured interest receivable		445	
Due from other State of West Virginia agencies	5,463		1,234
Inventories	31,207	2,669	91
Other assets	2,793	388	12
Total current assets	<u>381,013</u>	<u>30,310</u>	<u>2,322</u>
Non-current assets			
Capital assets, net of accumulated depreciation			
Land - non-infrastructure	14,585	-	4,791
Land improvements	3,537	-	-
Buildings	39,373	59,870	-
Furniture and fixtures	681	-	194
Rolling stock	68,725	1,231	330
Scientific equipment	671	-	-
Shop equipment	375	-	-
Roads	3,871,849	-	-
Bridges	829,610	-	-
Land - infrastructure	579,229	53,085	-
Toll road		466,660	
Rail property		-	29,140
Work in progress	270,790	-	
Total capital assets	<u>5,679,425</u>	<u>580,846</u>	<u>34,455</u>
Non-current Investments		20,277	
Non current taxes receivable	2,071	-	
Other non-current assets	3,574	-	
Total assets	<u>6,066,083</u>	<u>631,433</u>	<u>36,777</u>
LIABILITIES			
Current liabilities			
Accounts payable	74,171	2,483	280
Retainages payable	14,781	-	-
Accrued payroll and related liabilities	20,488	1,979	180
Due to other funds		-	-
Due to other State of West Virginia agencies	6,574	190	422
Due to other States IRP	3,255	-	-
Accrued interest payable	2,327	883	-
Deferred revenue	472	-	-
Current maturities of long term obligations	43,689	2,625	317
Total current liabilities	<u>165,757</u>	<u>8,160</u>	<u>1,199</u>
Non-current liabilities			
Claims and judgements	4,095	-	-
Compensated absences	57,696	2,284	137
Long-term debt obligations	520,955	116,191	1,922
Total non-current liabilities	<u>582,746</u>	<u>118,475</u>	<u>2,059</u>
Total liabilities	<u>748,503</u>	<u>126,635</u>	<u>3,258</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,219,277	462,030	32,217
Restricted		42,069	
Unrestricted	98,303	699	1,302
Total net assets	<u>\$ 5,317,580</u>	<u>\$ 504,798</u>	<u>\$ 33,519</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

Functions/Programs	Primary Government				Component Units	
	Program Revenues					
	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Assets		
Primary Government:						
Government activities						
Road maintenance						
Expressway, trunkline & feeder & SLS	\$ 228,449	\$ -	\$ -	\$ (228,449)	\$ -	-
Contract paving & secondary roads	41,536	-	-	(41,536)	-	-
Small bridge repair & replacement	25,259	-	-	(25,259)	-	-
Litter control program	1,595	-	-	(1,595)	-	-
Depreciation	16,196	-	-	(16,196)	-	-
Other road operations						
Interstate highways	54,614	-	55,825	1,211	-	-
Appalachian highways	126,317	-	161,088	34,771	-	-
Other federal aid programs	199,802	-	216,243	16,441	-	-
Non federal aid improvements	41,966	-	-	(41,966)	-	-
Industrial access roads	2,224	-	3,914	1,690	-	-
Depreciation	224,441	-	-	(224,441)	-	-
General and administration						
Support and administrative operations	67,079	4,173	9,081	(53,825)	-	-
Claims	610	-	-	(610)	-	-
Costs associated with DMV	32,029	-	-	(32,029)	-	-
Interest on long-term debt	28,168	-	-	(28,168)	-	-
Unallocated depreciation	2,327	-	-	(2,327)	-	-
Total primary government	\$ 1,092,612	\$ 4,173	\$ 446,151	\$ (642,288)	0	
Component units:						
Parkways, Economic Development and Tourism Authority	\$ 71,604	\$ 60,636	\$ -	\$ -	\$ (10,968)	
State Rail Authority	3,709	1,701	-	-	(2,008)	
Total component units	\$ 75,313	\$ 62,337	\$ -	\$ -	\$ (12,976)	
General revenues						
Taxes:						
Gasoline and motor carrier			\$ 229,650	\$ -		
Wholesale motor fuel			71,314	-		
Aviation fuel			484	-		
Automobile privilege			180,472	-		
Motor vehicle registration fees			90,942	-		
Investment and interest income			8,173	2,467		
Gain (loss) on sale of capital assets			(156)	-		
Payments from primary governments			2,965	3,995		
Miscellaneous revenues			15,486	-		
Total general revenues			\$ 599,330	\$ 6,462		
Change in net assets			(42,958)	(6,514)		
Net assets, beginning (as restated)			5,360,538	544,831		
Net assets, ending	\$ 5,317,580			\$ 538,317		

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2002
 (amounts expressed in thousands)

22

	<u>State Road Fund (Special Revenue)</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets				
Cash and cash equivalents	\$ 111,247	\$ 89,762	\$ 15,931	\$ 216,940
Receivables	61,857	1,280	1,112	64,249
Taxes receivable	56,327	-	143	56,470
Due from other State of West Virginia agencies	5,380	-	83	5,463
Due from other funds	71	-	-	71
Inventories	30,273	-	934	31,207
Other assets	2,306	-	487	2,793
Total assets	\$ 267,461	\$ 91,042	\$ 18,690	\$ 377,193
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 67,422	\$ 5,698	\$ 1,051	\$ 74,171
Retainages payable	13,180	1,590	11	14,781
Accrued payroll and related liabilities	20,337	-	151	20,488
Due to other State of West Virginia agencies	2,946	-	3,627	6,573
Due to other states	-	-	3,255	3,255
Deferred revenue	-	-	472	472
Due to other funds	-	71	-	71
Total liabilities	103,885	7,359	8,567	119,811
Fund balances				
Reserved for capital projects	-	83,683	-	83,683
Reserved for inventories	30,273	-	934	31,207
Unreserved, undesignated reported in special revenue fund	133,303	-	9,189	142,492
Total fund balances	163,576	83,683	10,123	257,382
Total liabilities and fund balances	\$ 267,461	\$ 91,042	\$ 18,690	\$ 377,193

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2002
 (amounts expressed in thousands)

23

Total fund balances - governmental funds	\$	257,382
--	----	---------

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

Certain receivables will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	5,961
--	-------

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

Land - non infrastructure	\$ 14,585
Land improvements- non infrastructure	3,537
Buildings	39,373
Furniture and Fixtures	681
Rolling Stock	68,725
Scientific Equipment	671
Shop Equipment	375
Roads	3,871,849
Bridges	829,610
Infrastructure Land	579,229
Work in process	270,790
	5,679,425

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	3,574
--	-------

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

Accrued interest payable	(2,327)
Claims and judgments	(4,095)
Compensated absences	(57,696)
Long-term debt obligations	(564,644) (628,762)
Net assets of governmental activities	\$ 5,317,580

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2002

24

(amounts expressed in thousands)

	<u>State Road Fund (Special Revenue)</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes				
Gasoline and motor carrier	\$ 229,650	\$ -	\$ -	\$ 229,650
Wholesale motor fuel	71,314	-	-	71,314
Aviation fuel	-	-	483	483
Automobile privilege	180,472	-	-	180,472
Industrial access	3,914	-	-	3,914
License, fees and permits				
Motor vehicle registrations and licenses	87,380	-	3,993	91,373
Special fees and permits	4,173	-	-	4,173
Federal aid	418,687	14,469	9,081	442,237
Investment and interest income, net of arbitrage rebate	2,412	5,422	339	8,173
Payments from primary government	-	-	2,865	2,865
Miscellaneous revenues	15,062	-	517	15,579
	<u>1,013,064</u>	<u>19,891</u>	<u>17,278</u>	<u>1,050,233</u>
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder, state	228,456	-	-	228,456
Contract paving and secondary roads	41,536	-	-	41,536
Small bridge repair and replacement	25,603	-	-	25,603
Litter control program	1,595	-	-	1,595
Support and administrative operations	70,927	-	15,926	86,853
Division of Motor Vehicles operations	32,029	-	-	32,029
Claims	15	-	-	15
Capital outlay and other road operations				
Road construction				
Interstate highways	66,888	1,104	-	67,992
Appalachian highways	198,175	-	-	198,175
Other federal aid programs	274,354	20,777	-	295,131
Nonfederal aid improvements	15,559	71,581	-	87,140
Industrial access road	2,224	-	-	2,224
Debt service	13,814	-	36,976	50,790
	<u>971,175</u>	<u>93,462</u>	<u>52,902</u>	<u>1,117,539</u>
Excess (deficiency) of revenues over expenditures	<u>41,889</u>	<u>(73,571)</u>	<u>(35,624)</u>	<u>(67,306)</u>
Other financing sources (uses)				
Proceeds from issuance of long term debt	-	110,000	-	110,000
Debt issuance premium	4,172	-	-	4,172
Operating transfers in	132	-	35,859	35,991
Operating transfers out	(35,859)	-	(132)	(35,991)
Total other financing sources (uses)	<u>(35,727)</u>	<u>114,172</u>	<u>35,727</u>	<u>114,172</u>
Net change in fund balances	6,162	40,601	103	46,866
Fund balances, beginning of year	<u>157,414</u>	<u>43,082</u>	<u>10,020</u>	<u>210,516</u>
Fund balances, end of year	<u>\$ 163,576</u>	<u>\$ 83,683</u>	<u>\$ 10,123</u>	<u>\$ 257,382</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

25

Net change in fund balances - total governmental funds	\$	46,866
--	----	--------

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 \$248,988 exceeded depreciation of (\$242,963) in the current period.

6,025

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.

(248)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds of (\$110,000) exceeded repayments of \$21,485.

(88,515)

Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year.

(431)

Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets. Bond issuance costs are expenditures to governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums of (\$4,172) exceeded bond issue costs of \$774.

(3,398)

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 compensated absences of (\$9,725), interest payable of (\$347) and amortization of bond issuance costs of (\$443) exceeded accretion of bond premiums of \$1,153 and a decrease in accrued claims of \$6,105.

(3,257)

Change in net assets of governmental activities	\$	<u>(42,958)</u>
---	----	-----------------

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 226,505	\$ -	\$ 226,505	\$ 228,703	\$ 2,198
Wholesale motor fuel	72,370	-	72,370	72,771	401
Automobile privilege	159,050	-	159,050	171,402	12,352
Motor vehicle registrations and licenses	82,000	-	82,000	85,395	3,395
Federal aid	501,800	-	501,800	388,827	(112,973)
Miscellaneous revenues	15,560	-	15,560	13,174	(2,386)
	<u>1,057,285</u>	<u>-</u>	<u>1,057,285</u>	<u>960,272</u>	<u>(97,013)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	70,000	4,000	74,000	64,170	9,830
Appalachian highways	250,000	(30,000)	220,000	201,063	18,937
Other federal aid programs	290,700	-	290,700	239,682	51,018
Nonfederal aid improvements	20,000	4,000	24,000	16,675	7,325
Road maintenance					
Maintenance	234,000	7,379	241,379	228,936	12,443
Contract paving and secondary roads	50,000	-	50,000	41,572	8,428
Small bridge repair and replacement	36,000	(2,000)	34,000	25,254	8,746
Litter control program	1,600	-	1,600	1,600	-
Support and administrative operations					
General operations	49,101	(5,784)	43,317	41,675	1,642
Equipment revolving	15,000	-	15,000	8,035	6,965
Inventory revolving	2,000	-	2,000	61	1,939
Debt service					
Division of Motor Vehicles operations	50,000	-	50,000	49,446	554
Waste tire	35,009	3	35,012	32,029	2,983
Claims	3,625	-	3,625	902	2,723
	<u>15</u>	<u>-</u>	<u>15</u>	<u>15</u>	<u>-</u>
	<u>1,107,050</u>	<u>(22,402)</u>	<u>1,084,648</u>	<u>951,115</u>	<u>133,533</u>
Excess (deficiency) of revenues over expenditures	(49,765)	22,402	(27,363)	9,157	36,520
Fund balance, beginning of year	<u>96,835</u>	<u>-</u>	<u>96,835</u>	<u>96,835</u>	<u>-</u>
Fund balance, end of year	<u>\$ 47,070</u>	<u>\$ 22,402</u>	<u>\$ 69,472</u>	<u>\$ 105,992</u>	<u>\$ 36,520</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation (the "Department") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This Statement established new financial reporting requirements for state and local governments throughout the United States. It requires new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The Department is required to implement these standards for the fiscal year ending June 30, 2002, which is consistent with the State of West Virginia's adoption period. The Department has adopted the provisions of GASB Statement 34 for its fiscal year ended June 30, 2002. With the implementation of GASB Statement 34, the Department has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Department has implemented the following GASB Statements in the current fiscal year: Statement 33 - *Accounting and Financial Reporting for Nonexchange Transactions*, Statement 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38 - *Certain Financial Statement Note Disclosures*. The accompanying financial statements present the financial position of the Department and its various organizations, and the results of operations of the Department and its various organizations.

Significant changes required by the implementation of these statements include the presentation of management's discussion and analysis, which precedes the financial statements, and the presentation of accrual based government-wide financial statements, including the recording of infrastructure assets. The following summarizes significant impacts of transitioning to the new reporting model.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Deferred issue costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as bonds, compensated absences, litigation and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are recorded as expenditures on the governmental fund statements.
- Bond proceeds, including any premiums on debt issued, result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY - The Department was created as a department within the executive branch of the State of West Virginia (the "State") government by an Act of the West Virginia Legislature, effective July 1, 1989. The Department is headed by the Secretary of Transportation, who is appointed by the Governor with the approval of the Senate. The Department administers the entities statutorily assigned to it.

The Governor appoints the commissioners and authority members of the entities included in the Department. The entities are considered to be component units of the State. The financial statements of the Parkways, Economic Development and Tourism Authority and the State Rail Authority are discretely presented in the comprehensive annual financial report of the State, while the financial statements of the other entities are blended with the financial data of the State.

The financial statements of the Department are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the State of West Virginia, that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

These financial statements include the component units of the State that are administered by the Department. Following are descriptions of entities included in these financial statements:

DIVISION OF HIGHWAYS - The Division of Highways (the Division) is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the Legislature.

DIVISION OF MOTOR VEHICLES - The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation which collects registration fees, license fees, and automobile privilege taxes for expenditure by the Division of Highways, as well as other motor vehicle fees. The expenditures related to the collection of registration fees, license fees, and automobile privilege taxes are recorded in the State Road Fund within the Division of Highways.

DIVISION OF PUBLIC TRANSIT - The Division of Public Transit is under the supervision of the Secretary of Transportation. The West Virginia Department of Transportation, through the Division of Public Transit, is designated as the agency of the State responsible for administering all federal and state programs relating to public transportation. The Division of Public Transit assists in the development of improved public transportation facilities, services, equipment, techniques and methods, with the cooperation of transportation carriers, both public and private.

AERONAUTICS COMMISSION - The West Virginia Aeronautics Commission has general supervision and control over all airports used for commercial purposes, all state and municipal airports, all air schools, and all phases of aeronautics within the State. The Commission consists of five members, four appointed by the Governor with the consent of the Senate, and the fifth member is the Secretary of Transportation.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PUBLIC PORT AUTHORITY - The West Virginia Public Port Authority is under the supervision of the Secretary of Transportation. The Authority assesses specific transportation needs and considers feasibility studies for the purpose of determining the best site locations for transportation centers, terminals, ports and harbors, and foreign trade zones. The authority consists of eleven members, including the Secretary of Transportation, who serves as the chairman, and ten individuals who are appointed by the Governor with the advice and consent of the Senate.

COMPONENT UNITS - Management has considered all potential component units to be included in the Department's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Department is financially accountable, or organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statements to be misleading or incomplete. In conformity with accounting principles generally accepted in the United States of America, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS - The component units' columns in the combined financial statements include the financial data of the Department's two component units. These units are reported in separate columns to emphasize that they are legally separate from the Department. Separately issued independent audit reports for each of the discretely presented component units may be obtained from West Virginia Department of Transportation, Division of Highways, Finance Section, Building 5, Room A-220, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0430 or from the respective component units at the addresses presented below.

STATE RAIL AUTHORITY - The State Rail Authority (Railroad) is responsible for state-wide rail planning and the operation of the South Branch Valley Railroad (SBVRR) and West Virginia Central Railroad (WVCRR). It can issue bonds and receives federal and state grants to supplement the cost of operations of the SBVRR. The board consists of seven members, six members appointed by the Governor and the seventh member is the Secretary of Transportation. Address: 120 Water Plant Drive, Moorefield, West Virginia 26836

PARKWAYS, ECONOMIC DEVELOPMENT AND TOURISM AUTHORITY - The responsibilities of the West Virginia Parkways, Economic Development and Tourism Authority (Parkways) include the operation and maintenance of the West Virginia Turnpike, and economic development and tourism for areas within 75 air miles of the turnpike. Parkways can also issue bonds and set rates for using the turnpike. The Secretary of Transportation serves as its chairman and six members are appointed by the Governor. Address: 3310 Piedmont Road, Charleston, West Virginia 25311.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

30

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 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 an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2002, has been reported only in the government-wide financial statements.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

31

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Department employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Department, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, an employee may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's post employment health care insurance premium or to increase service credits for retirement purposes. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.
- The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. The liability for accumulated post-retirement health insurance has been reported only in the government-wide financial statements.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

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

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

- State Road (Special Revenue) Fund - This fund is used to account for specific revenues that are legally restricted to expenditures for particular purposes. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- Capital Projects Fund - This fund accounts for financial resources to be used for road construction or reconstruction financed by proceeds from the sale of the Safe Road Bonds and matching federal highway funds.

The Department reports the following proprietary funds which are presented as discretely presented component units:

- State Rail Authority (Proprietary) Fund - This fund accounts for the activities of the Railroad, a discretely presented component unit of the Department. The Railroad is responsible for state-wide rail planning and the operation of the SBVRR and WVCRR.
- Parkway, Economic Development and Tourism Authority (Proprietary) Fund - This fund accounts for the activities of Parkways, a discretely presented component unit of the Department. Parkways is responsible for operation and maintenance of the West Virginia Turnpike, and economic development and tourism for areas within 75 air miles of the turnpike.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

32

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTERFUND ACTIVITY - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges from the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

BUDGETING AND BUDGETARY CONTROL - Except for Parkways, the Department's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 31 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Department's overall financial plan, which includes revenue estimates developed by the Department and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each division as a whole must be approved by the State Legislature.

The Department's State Road Fund (Special Revenue Fund) has a legislatively approved budget. In addition, with the exception of the debt service fund, all divisions included in the financial statements as other governmental funds, have an annual appropriated budget of expenditures. However, the capital projects fund, debt service fund, and certain monies reported within the General Fund for GAAP purposes, are not considered appropriated funds in accordance with the Department's budgetary reporting policy. Accordingly, these funds have not been reported in the Department's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - Special Revenue Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2002, on the budgetary basis to the GAAP basis for the General Fund follows:

Excess of revenues over expenditures - budgetary basis	\$ 9,157
Basis of accounting differences (budgetary to GAAP)	(6,502)
Appropriated debt service	36,662
Unbudgeted funds	<u>2,572</u>
Excess of revenues over expenditures - GAAP basis.	<u>\$ 41,889</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Except for Parkways, Cash and Cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). In addition, the Department makes interest-earning deposits in certain investment pools maintained by the IMB that are available to the Department with overnight notice. Interest income from these investments is prorated to the Department at rates specified by the IMB based on the balance of the Department's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Because these deposits are held in the IMB investment pools, no other disclosures related to safekeeping, credit or market risk, or GASB 3 risk are required. However, market risk exists as the value of the investment pools underlying investment assets may decline because of an increase in interest rates or a decline in stock prices. The carrying value of the deposits reflected in the financial statements approximates fair value and approximates the value of the shares in the external investment pool.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 IMB for investment in accordance with the West Virginia Code, policies set by the IMB, and provisions of bond indentures and trust agreements when applicable. The IMB is governed by a thirteen-member Board of Trustees. The Governor, the State Auditor and the State Treasurer are members of the Board and the other members are appointed by the Governor. The Board was formed in 1997 to serve as the Trustee to hold certain public pension funds and insurance funds, as well as to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

Parkways maintains unrestricted and restricted cash deposits with financial institutions. Such deposits are either fully insured or collateralized by State or United States Government Securities.

INVESTMENTS - Investments are reported at fair value and realized and unrealized gains and losses are reported in the statement of activities as a component of investment income.

INVENTORIES - Except for Parkways, the Department's inventories are stated at weighted average cost generally using the "consumption method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserve for inventories" in the Government Fund Financial Statements. Parkways' inventories are valued at the lower of cost (first-in, first-out method) or market.

CAPITAL ASSETS - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the Department, such as roads, bridges, toll roads, rail properties and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Department as non-infrastructure assets which have a cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; twenty-five thousand dollars or more for buildings at the date of acquisition and have an expected useful life of three or more years; and infrastructure assets with a cost in excess of one million dollars. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed 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. Building 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 Department in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. The Department has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: 30-40 years
- Furniture and Fixtures: 3 - 20 years
- Rolling stock: 5 - 20 years
- Scientific equipment: 2 - 25 years
- Infrastructure: Roads - 30 years
- Infrastructure: Bridges - 50 years
- Toll Road Infrastructure: 10-50 years
- Rail property: 3-35 years

ACCOUNTS AND TAXES RECEIVABLE - Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from the federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily gasoline and wholesale fuel taxes and automobile privilege taxes, which are collected within 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. They are composed primarily of amounts on deposit with West Virginia Workers' Compensation Fund.

CLAIMS - Claims awarded against the Department in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures in the fund financial statements for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature. A liability for unfunded claims is recorded in the government-wide financial statements when management and the Department's legal section determines 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 - Department employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and 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. The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-retirement health insurance as a liability.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

35

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

OPERATING REVENUES AND EXPENSES - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Balances classified as operating revenues and expenses are those which comprise the Department's ongoing operations. Principal operating revenues are charges to customers for use of the services. Principal operating expenses are the costs of providing the goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

NET ASSETS - As required by GASB 34, the Department displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

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

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

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.

ARBITRAGE REBATE LIABILITY - The capital project fund accounts for arbitrage rebate payable, if any, as a liability of the fund. The change in the obligation is recorded as an adjustment to current year interest revenue.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Primary Government - Cash and cash equivalents for the primary government consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). The total of such deposits approximated \$216,940 at June 30, 2002.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Discretely Presented Component Units:

The State Rail Authority maintains deposits with the STO that are pooled funds managed by the West Virginia Investment Management Board. State Rail Authority also maintains certain restricted cash deposits which are subject to the terms of a loan agreement and bond covenants. These restricted funds are invested in a U.S. Government securities money market mutual fund. The carrying amount of these deposits do not differ materially from the bank balance at June 30 and are not subject to categorization under the provision of Statement No. 3 of the Governmental Accounting Standards Board. The total amount of deposits with the STO and invested in mutual funds at June 30, 2002 is as follows:

State Investment Management Board investment pools	\$ 439
Investment in U.S. Government securities money market mutual fund	<u>505</u>
	<u>\$ 944</u>

Parkways maintains unrestricted and restricted cash deposits with financial institutions. The carrying amount of these cash deposits were \$650 with bank balances of \$462. The bank balances were covered by \$200 of federal depository insurance (Category 1) with the remaining amounts collateralized with securities held by the pledging financial institutions' agents in Parkways' name (Category 2).

The Parkways Trust Indentures dated October 15, 1989, February 15, 1993, December 1, 1994 and November 1, 1996, December 1, 2001, and February 1, 2002 (the Trust Indentures), created in connection with the issuance of revenue bonds (the Bonds), pledge substantially all of Parkways' operating revenues and all monies, and impose certain restrictions on the deposit and investment of such funds as described below. The Trust Indentures require that cash deposits, including certificates of deposits, be either insured or fully collateralized by a pledge of securities held by an agent of the pledging financial institution in Parkways' name. The Trust Indentures and the agreements with the Bonds' insurer permit investments in obligations of, or guaranteed by, the United States of America, its agencies and instrumentalities (United States Government Obligations); obligations of any state of the United States of America which meet certain ratings; commercial paper and other obligations which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; and repurchase agreements with banks or primary government dealers meeting certain ratings or collateralized with obligations of, or guaranteed by, the United States of America.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by Parkways or its agent in Parkways' name.

Category 2 - Uninsured and unregistered, investments for which the securities are held by the counterparty's trust department or agent in Parkways' name.

Category 3 - Uninsured and unregistered, investments for which the securities are held by the counterparty in Parkways' name, or by the counterparty's trust department or agent, but not in Parkways' name.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The Parkway's investments, including cash equivalents of \$5,451, by type and category of risk are as follows:

	Carrying Amount	Fair Value	Cost
<u>Category 1:</u>			
U.S. Treasury Bonds and Notes	\$ 101	\$ 101	\$ 103
U.S. Government Agency Securities	26,329	26,329	25,633
State Government Bonds	636	636	602
Corporate bonds and notes	1,662	1,662	1,531
	<u>28,728</u>	<u>28,728</u>	<u>27,869</u>
<u>Category 3:</u>			
Repurchase agreements	<u>5,451</u>	<u>5,451</u>	<u>5,451</u>
<u>Investments not subject to categorization:</u>			
Investment in money market mutual fund	8,749	8,749	8,749
Total investments	<u>\$ 42,928</u>	<u>\$ 42,928</u>	<u>\$ 42,069</u>

The money market mutual fund invests in high quality short-term U.S. denominated money market instruments such as government securities, obligations of banks, commercial paper and other short-term obligations and are not subject to categorization for credit and safekeeping risk. The fund maintains a dollar-weighted average maturity of 90 days or less.

Parkways cost of cash deposits, investment securities, and related accrued interest receivable is allocated among the following restricted accounts created under the various Trust Indentures or by the adoption of a Parkways resolution at June 30, 2002:

Restricted assets:

Assets restricted by Trust Indenture:

Series 1989 and 1993 reserves	\$ 11,218
Series 1989 and 1993 debt service	1,250
Renewal and replacement	2,383
Operating and maintenance	3,709
Series 2001 debt service	94
Series 2001 construction	5,614
Series 2002 debt service	638
Insurance liability	891
Economic development and tourism	<u>3,186</u>
	<u>28,983</u>

Reserve revenue, restricted by tri-party agreement

11,854

Highway/bridge contingency, restricted by tri-party

1,000

Agreement

232

Unredeemed coupons

Total restricted assets

\$ 42,069

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The assets restricted by the 1989, 1993, and 2002 Trust Indentures must be used for construction, turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1989 and 1993 reserve account equal maximum annual debt service for all bonds. The balance in the 1989, 1993, and 2002 debt service accounts are required by the Trust Indentures to have a balance equal to accrued debt service for the current year plus one twelfth of the debt service which will accrue in the next succeeding fiscal year. The Trust Indentures also require that a reserve be established for renewal and replacement that equals the consulting engineer's recommendations for the year. The operations and maintenance account is required by the Trust Indentures to maintain a balance equal to one-eighth of budgeted operating expenses for the fiscal year. The Series 1994 Trust Indenture, as amended by a supplemental Trust Indenture dated November 1, 1996, requires that approximately \$320 of bond proceeds be deposited in the debt service reserve account equal to the maximum annual debt service on the Series 1994 bonds. The 1994 and 1996 Trust Indentures also require the establishment of bond funds, comprised of the principal and interest debt service accounts, which must be maintained at a balance at least equal to one-sixth of the interest payable and one-twelfth of the principal due on June 1, 2001, related to the Series 1994 and 1996 Bonds. The Series 1994 and 1996 were defeased during the year ended June 30, 2002 by the issuance of the Series 2001A bonds.

The insurance liability account is a self-insured fund that covers Parkways against risk of loss from natural disaster, among other items, and is designated as Parkways' percentage of contribution in the event of a disaster.

The economic development and tourism account is designated to be used for economic development and tourism projects by Parkways. All revenues derived from these projects, including recovery of principal, are pledged as security for the Series 2001A and 2001B Bonds.

The contingency highway and bridge reserve account, established by Parkways and restricted by the tri-party agreement, was established in February 2002 in the event that Parkways needed additional cash or liquidity for highway and bridge projects for any reason (for example, without limitation, due to unanticipated traffic reductions resulting in toll revenue reductions, unanticipated cost overruns on one or more projects, the need to begin or complete project before originally planned, terrorist events, or failure to achieve all anticipated savings from the issuance of the Series 2002 and 2003 refunding bonds). This reserve is not a requirement by the bondholders and will not be used to pay debt service on any bonds of Parkways, but it will be used at the Board of Director's discretion for costs of highway and/or bridge projects in emergency situations.

The reserve revenue account, restricted by the tri-party agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and Parkways, can only be used for maintenance and operation of the Turnpike and for debt service.

The unredeemed coupons account has been designated by Parkways to fund redemption of interest coupons that have matured but are not yet redeemed for bonds issued under previous bond indentures.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2002 consisted of the following:

	Primary Government	Component Units
Federal aid billed and not paid	\$ 2,330	\$ -
Federal aid earned but not billed	<u>55,386</u>	<u>-</u>
Total federal aid receivable	57,716	-
Other receivables	<u>9,051</u>	<u>1,332</u>
Combined total receivables	66,767	1,332
Less: allowance for uncollectibles	<u>2,500</u>	<u>-</u>
Net accounts receivable	<u>\$ 64,267</u>	<u>\$ 1,332</u>

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

NOTE 4 - TAXES RECEIVABLE

Taxes receivable at June 30, 2002 consisted of the following:

Automobile privilege taxes	\$ 34,526
Gasoline and motor fuel taxes	27,745
Aviation fuel	<u>143</u>
	<u><u>\$ 62,414</u></u>

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end \$2,071 is not expected to be collected within one year and is classified as a long term receivable.

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

Amounts due from other State of West Virginia agencies at June 30, 2002 consisted of the following:

	Primary Government	Component Units
The Department of Administration	\$ 197	\$ 1,234
Bureau of Employment Programs	64	-
Office of Emergency Services	4,727	-
The Governor's Office	48	-
West Virginia State Police	40	-
West Virginia Building Commission	28	-
Adjutant Generals Office	94	-
Other agencies	<u>265</u>	<u>-</u>
	<u><u>\$ 5,463</u></u>	<u><u>\$ 1,234</u></u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

40

NOTE 5 - DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES (Continued)

Amounts due to other State of West Virginia agencies at June 30, 2002 consisted of the following:

	Primary Government	Component Units
The Department of Administration	\$ 3,964	\$ 612
Bureau of Employment Programs	2,358	-
The Department of Tax and Revenue	9	-
Division of Environmental Protection	27	-
Department of Natural Resources	51	-
Division of Corrections	138	-
Division of Culture and History	23	-
Other agencies	<u>4</u>	<u>-</u>
	<u><u>\$ 6,574</u></u>	<u><u>\$ 612</u></u>

NOTE 6 - INTERFUND TRANSFERS

A summary of interfund transfers for the fiscal year ended June 30, 2002 follows:

Transfers From (Out)	Transfers To (In)	For Purpose	Amount
State Road Fund	Debt Service Fund	To transfer amounts necessary to meet debt service requirements on the Departments General Obligation Bonds	\$ 35,859
Debt Service Fund	State Road Fund	To transfer funds in excess of those required to meet debt service requirements to the State Road fund	132
			\$ 35,991

NOTE 7 - INVENTORIES

Inventories at June 30, 2002 consisted of the following:

	Primary Government	Component Units
Materials and supplies	\$ 20,644	\$ 2,760
Equipment repair parts	9,351	-
Gas and lubrication supplies	<u>1,212</u>	<u>-</u>
	<u><u>31,207</u></u>	<u><u>2,760</u></u>

During the fiscal year management adjusted its capitalization policy related to certain items that are carried in material and supplies inventory to eliminate the stocking of certain items at organizations below the District level. The result of this change was an adjustment of approximately \$2,289 to reflect such items carried below the district organization level as an expenditure.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 8 - CAPITAL ASSETS

Governmental Activities:

Capital asset activity for Governmental Activities for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets not being depreciated:				
Land - non infrastructure	\$ 13,685	\$ 900	-	\$ 14,585
Land - infrastructure	521,454	57,775	-	579,229
Construction-in-progress - roads	348,094	127,172	246,995	228,271
Construction-in-progress - bridges	146,687	41,143	145,311	42,519
Total capital assets not being depreciated	1,029,920	226,990	392,306	864,604
Capital assets being depreciated:				
Buildings	59,103	4,365	49	63,419
Furniture and fixtures	9,224	197	165	9,256
Land improvements - non infrastructure	3,204	1,286	-	4,490
Rolling stock	194,610	15,943	5,762	204,791
Shop equipment	3,013	48	17	3,044
Scientific equipment	1,826	159	23	1,962
Infrastructure - roads	5,877,066	246,994	-	6,124,060
Infrastructure - bridges	869,942	145,312	-	1,015,254
Total capital assets being depreciated	7,017,988	414,304	6,016	7,426,276
Less accumulated depreciation:				
Buildings and improvements	22,275	1,820	49	24,046
Furniture and fixtures	8,450	281	156	8,575
Land improvements - non infrastructure	728	225	-	953
Rolling stock	125,692	15,896	5,522	136,066
Shop equipment	2,500	186	17	2,669
Scientific equipment	1,200	114	23	1,291
Infrastructure - roads	2,048,076	204,135	-	2,252,211
Infrastructure - bridges	165,337	20,307	-	185,644
Total accumulated depreciation	2,374,258	242,964	5,767	2,611,455
Total capital assets being depreciated, net	4,643,730	171,340	249	4,814,821
Governmental activities capital assets, net	\$ 5,673,650	\$ 398,330	\$ 392,555	\$ 5,679,425

Current year depreciation totaling \$242,964 was allocated as a separate line item in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining 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 Department.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental Activities (Continued):

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Buildings and improvements	\$ 1,820
Furniture and fixtures	281
Rolling stock	15,896
Land improvements	225
Shop equipment	186
Scientific equipment	114
Infrastructure - roads	204,135
Infrastructure - bridges	20,307
Total depreciation expense	<u>\$ 242,964</u>

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2002, was as follows:

	<u>Balance</u>		<u>Increases</u>		<u>Decreases</u>		<u>Balance</u>
	<u>July 1, 2001</u>						<u>June 30, 2002</u>
Capital assets not being depreciated:							
Land - infrastructure	\$ 53,085	\$ -	\$ -	\$ -	\$ 53,085		
Land - non infrastructure	<u>4,873</u>	<u>-</u>	<u>-</u>	<u>82</u>	<u>4,791</u>		
Total capital assets not being depreciated	<u>57,958</u>	<u>-</u>	<u>-</u>	<u>82</u>	<u>57,876</u>		
Capital assets being depreciated:							
Buildings	87,699	1,120	-	-	88,819		
Furniture and fixtures	497	3	-	-	500		
Rolling stock	7,047	168	-	-	7,215		
Infrastructure - toll road	716,709	8,702	-	-	725,411		
Infrastructure - rail property	<u>40,169</u>	<u>2,407</u>	<u>1,363</u>	<u>1,363</u>	<u>41,213</u>		
Total capital assets being depreciated	<u>852,121</u>	<u>12,400</u>	<u>1,363</u>	<u>1,363</u>	<u>863,158</u>		
Less accumulated depreciation:							
Buildings and improvements	25,911	3,038	-	-	28,949		
Furniture and fixtures	288	18	-	-	306		
Rolling stock	5,433	405	184	-	5,654		
Infrastructure - toll road	232,978	25,773	-	-	258,751		
Infrastructure - rail property	<u>11,740</u>	<u>1,232</u>	<u>899</u>	<u>899</u>	<u>12,073</u>		
Total accumulated depreciation	<u>276,350</u>	<u>30,466</u>	<u>1,083</u>	<u>1,083</u>	<u>305,733</u>		
Total capital assets being depreciated, net	<u>575,771</u>	<u>(18,066)</u>	<u>280</u>	<u>280</u>	<u>557,425</u>		
Governmental activities capital assets, net	<u>\$ 633,729</u>	<u>\$ (18,066)</u>	<u>\$ 362</u>	<u>\$ 362</u>	<u>\$ 615,301</u>		

Current year depreciation totaled \$30,466.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

NOTE 9 - RETAINAGES PAYABLE

The Department has entered into an arrangement with the West Virginia Investment Management Board whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Department. At June 30, 2002, retainages payable on contracts had been reduced by these amounts on deposit in such accounts by approximately \$13,017.

NOTE 10 - LONG-TERM OBLIGATIONS

Governmental Activities:

Long-term obligations at June 30, 2002, 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:		5.625%					
Better Highway Bonds	1973	-6.10% 4.30%-	02/01/2006	\$ 30,620	\$ -	\$ 11,960	\$ 18,660
Safe Road Bonds	1998	5.25% 4.30%-	06/01/2023	204,080	-	-	204,080
Safe Road Bonds	1999	5.75% 5.50%-	06/01/2017	106,325	-	1,305	105,020
Safe Road Bonds	2000	5.75% 3.50%-	06/01/2025	110,000	-	-	110,000
Safe Road Bonds	2001	5.50%	06/01/2013	<u>-</u>	<u>110,000</u>	<u>8,220</u>	<u>101,780</u>
Total General Obligation Bonds				451,025	110,000	21,485	539,540
Bond Premium				<u>1,271</u>	<u>4,172</u>	<u>1,153</u>	<u>4,290</u>
Total general obligation bonds payable net of premium				<u>452,296</u>	<u>114,172</u>	<u>22,638</u>	<u>543,830</u>
Claims and judgments				11,200	595	6,700	5,095
Compensated absences				67,446	10,064	-	77,510
Other long-term				<u>320</u>	<u>-</u>	<u>320</u>	<u>-</u>
Total long-term obligations				<u>\$ 531,262</u>	<u>\$ 124,831</u>	<u>\$ 29,658</u>	<u>\$ 626,435</u>

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments require that debt service on the bonds be paid from the Safe 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.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Governmental Activities (continued):

Debt service expenditures for debt service funds included interest of \$28,168 for the year ended June 30, 2002. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and liquidated through debt service funds, are as follows:

	2003	2004	2005	2006	2007	2008- 2012	2013- 2017	2018- 2022	2023- 2025	Total
General obligation bonds payable from tax revenue:										
Better highway bonds	\$ 8,933	\$ 6,360	\$ 3,909	\$ 1,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,769
Safe road bonds	<u>41,063</u>	<u>43,638</u>	<u>46,087</u>	<u>48,431</u>	<u>49,997</u>	<u>249,986</u>	<u>173,087</u>	<u>117,601</u>	<u>70,556</u>	<u>840,446</u>
Total general obligation bonds	49,996	49,998	49,996	49,998	49,997	249,986	173,087	117,601	70,556	861,215
Less: interest	<u>27,956</u>	<u>26,928</u>	<u>25,781</u>	<u>24,628</u>	<u>23,532</u>	<u>96,036</u>	<u>57,837</u>	<u>31,671</u>	<u>7,306</u>	<u>321,675</u>
Total principal	22,040	23,070	24,215	25,370	26,465	153,950	115,250	85,930	63,250	539,540
Bond premium	<u>835</u>	<u>675</u>	<u>563</u>	<u>475</u>	<u>400</u>	<u>1,137</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>4,290</u>
Total principal and bond premium	<u><u>\$ 22,875</u></u>	<u><u>\$ 23,745</u></u>	<u><u>\$ 24,778</u></u>	<u><u>\$ 25,845</u></u>	<u><u>\$ 26,865</u></u>	<u><u>\$ 155,087</u></u>	<u><u>\$ 115,455</u></u>	<u><u>\$ 85,930</u></u>	<u><u>\$ 63,250</u></u>	<u><u>\$ 543,830</u></u>

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

	Compensated Absences	Claims and Judgments	General Obligation Bonds and Premium	Total
Short-term liability	\$ 19,814	\$ 1,000	\$ 22,875	\$ 43,689
Long-term liability	<u>57,696</u>	<u>4,095</u>	<u>520,955</u>	<u>582,746</u>
	<u><u>\$ 77,510</u></u>	<u><u>\$ 5,095</u></u>	<u><u>\$ 543,830</u></u>	<u><u>\$ 626,435</u></u>

During the year ended June 30, 1972, the State was authorized by constitutional amendment to issue \$500,000 of general obligation bonds to fund highway and road construction projects known as Better Highway Bonds. 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.

The Department's Safe Road Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code, which requires 90% of interest earnings in excess of interest expended to be paid to the Internal Revenue Service. The Department has no arbitrage rebate liability as of June 30, 2002.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Governmental Activities (continued):

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

	<u>Year Ended June 30, 2002</u>	<u>Year Ended June 30, 2001</u>	<u>Year Ended June 30, 2000</u>
Estimated claims liability, July 1,	\$ 11,200	\$ 9,300	\$ 11,020
Additions for claims incurred during the year	2,787	1,585	1,905
Changes in estimates for claims of prior periods	(8,877)	415	(3,485)
Payments on claims	(15)	(100)	(140)
Estimated claims liability, June 30,	<u>\$ 5,095</u>	<u>\$ 11,200</u>	<u>\$ 9,300</u>

At June 30, 2002, approximately \$15,250 of tort claims and \$2,567 of construction claims, including non-incremental claims, were pending against the Department in the West Virginia State Court of Claims. With respect to these claims, the Department has an estimated obligation of \$4,500, 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 \$595. During the normal course of operations, the Department may become subject to other litigation. Accordingly, no provision has been made in the financial statements for liabilities, if any, from such litigation.

The Department's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and is determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Department's unfunded obligation of approximately \$3,783 arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees. These liabilities are generally liquidated by the State Road Fund.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under the West Virginia Public Employees Retirement System. These liabilities are generally liquidated by the State Road Fund.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units:

Long-term debt of the State Rail Authority consisted of notes payable to the County Commission of Hardy County and Hampshire County, West Virginia amounting to \$2,239 as of June 30, 2002. These notes are payable in monthly installments of approximately \$38, including interest ranging from 6.7% to 7.4%, with the final payment due July 2007.

Long-term obligations at June 30, 2002, and changes for the fiscal year then ended are as follows:

Notes payable at June 30, 2001	\$ 2,535
Less principal retirements	280
Less amortization of premium	16
	<hr/>
Notes payable at June 30, 2002	2,239
	<hr/>
Less current portion	317
	<hr/>
	<u>\$ 1,922</u>

Maturities of the State Rail Authority long-term debt as well as the related interest to be paid for each of the next five years and thereafter are as follows:

<u>Year ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2003		\$ 300	\$ 144	\$ 444
2004		320	124	444
2005		345	99	444
2006		370	86	456
2007		395	60	455
2008		425	31	456
		2,155	544	2,699
	Premium	84	-	84
	Amortization of premium	-	(84)	(84)
		<u>\$ 2,239</u>	<u>\$ 460</u>	<u>\$ 2,699</u>

Revenue bonds payable of Parkways consisted of the following at June 30, 2002:

Series 1993 Inverse Floating Rate Notes, issued \$38,300 in March 1993, with varying interest rates due in varying installments from May 2001 through May 2013	\$ 17,960
Series 1993 Premium Capital Appreciation Bonds, issued \$2,121 in March 1993, at 23%, due in varying installments including accumulated appreciation, from May 2003 through May 2007	1,375
Series 1993 Yield Enhancement Securities, issued \$11,600 in March 1993, with variable interest rates, due in varying installments from May 2008 through May 2009	7,520
Series 1993 Select Auction Variable Rate Securities, issued \$27,650 in March 1993, at variable rates due in varying installments from May 2014 through May 2019	17,900

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

47

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (continued):

Series 1993 Residual Interest Bonds, issued \$27,650 in March 1993, at variable rates due in varying installments from May 2014 through May 2019	17,900
Series 2001 A Taxable Serial Bonds, issued \$5,695 in December 2001 at 4.75% to 7.00%, due in varying installments from June 2002 to June 2011	5,385
Series 2001 B Bonds, issued serial bonds of \$1,505 in December 2001, at 3.50% to 5.00%, due in varying installments from June 2002 through 2011	1,505
Series 2001 B term bonds, \$2,090 at 5.00% due June 2013	2,090
Series 2001 B term bonds, \$2,305 at 5.125% due June 2013	2,305
Series 2002 Serial Bonds, issued \$44,205 in February 2002 at 3.50% to 5.25%, due in varying installments from May 2002 through May 2019	<u>41,950</u>
Total revenue bonds payable	115,890
 Add:	
Unamortized premium and accumulated appreciation on premium capital appreciation bonds	16,742
 Less:	
Unamortized deferred loss on advance refunding	(12,189)
Unamortized discount and issuance costs	(1,627)
Current portion of revenue bonds payable	<u>(2,625)</u>
	 <u>\$ 116,191</u>

In 1989, Parkways issued \$46,035 of Series 1989 Serial Bonds and \$10,530 of Series 1989 Capital Appreciation Bonds dated November 7, 1989, and \$86,435 of Series 1989 Term Bonds dated October 15, 1989 (collectively the 1989 Series Bonds), under the Trust Indenture. The 1989 Series Bonds were issued to finance the cost of certain Parkway improvements, provide funds for a debt service reserve fund and bond issuance costs, and redeem \$44,543 of Turnpike Commission (predecessor to Parkways) Series 1952 and 1954 Bonds. On July 1, 1999, Parkways fully paid the Series 1989 Serial Bonds by making the final payment of \$4,160 as scheduled.

In 1993, Parkways issued \$118,781 of Revenue Refunding Bonds for the express purpose of defeasing \$111,245 of 1989 Series Bonds, all of which are no longer outstanding. The advance refunding resulted in a \$14,350 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$456 and \$647 in 2002 and 2001, respectively. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$7,400 over a 26-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,200.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (continued):

The Revenue Refunding Bonds are comprised of coupon bonds, premium capital appreciation bonds, and the following:

- Select Auction Variable Rate Securities and Residual Interest Bonds which were issued in equal amounts with the same maturities and having variable interest rates based upon the same index. The Select Auction Variable Rate Securities and Residual Interest Bonds react to this index in an equally inverse manner and, accordingly, the blended interest rate on these securities is 5.831%.
- Yield Enhancement Securities which are variable rate securities with a maximum rate of 16% and converted to a fixed rate of 5.7% on May 15, 1998.
- Inverse Floating Rate Notes which have variable rates with maximum rates ranging from 9.5% to 12.95%. The Inverse Floating Rate Notes convert to fixed rates ranging from 4.9% to 5.8% on various dates.

Parkways has entered into interest rate swap agreements whereby it has exchanged the interest based on the variable rates on the Yield Enhancement Securities and Inverse Floating Rate Notes for interest equal to the fixed conversion rates discussed above for the same securities. The terms of the interest rate swap agreements extend to various dates in 2002, the expiration of such agreements coinciding with the date that the bonds' interest rates mandatorily convert from variable to fixed rates. Parkways is exposed to loss if one or more of the counterparties default under the terms of the interest rate swap agreements.

Interest on the Series 1993 coupon bonds, Yield Enhancement Securities, and Inverse Floating Rate Notes is payable semi-annually on May 15 and November 15 of each year. Interest on the Series 1993 Capital Appreciation Bonds is compounded on May 15 and November 15 of each year and will be payable at maturity of such bonds. Interest on the Series 1993 Select Auction Variable Rate Securities and the Series 1993 Residual Interest Bonds is payable monthly.

The Revenue Bonds under the 1989 and 1993 Trust Indentures are secured by a pledge of substantially all Parkways' operating revenues and all monies deposited into accounts created by the Trust Indentures, with the 1989 Series Bondholders having priority over the 1993 Series Bondholders.

In 1994, \$3,000 of serial bonds and \$6,000 of term bonds (that were subsequently refunded by the 1996 issue) of Raleigh County, West Virginia, Commercial Development Revenue Bonds Series 1994 (the Series 1994 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the Issuer), and a Trust Indenture, dated as of December 1, 1994 (the Indenture). The bond proceeds were lent to Parkway's for the purpose of providing funds to: (i) partially finance the Caperton Center (the Project); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance in connection with the Series 1994 Bonds. The Series 1994 Bonds are limited obligations of the Issuer payable solely from loan payments by Parkways pledged under the Indenture, and are also secured equally and ratably by a Trust Agreement among Parkways, the Issuer and a trustee, wherein Parkways has pledged certain non-toll revenues of Parkways including (i) net revenues of the Project; (ii) certain interest and other investment earnings; and (iii) gross revenues derived from concessionaire or other contracts with third-parties relating to operations conducted by such third parties at any of Parkways' service plazas. Toll revenues derived by Parkways in connection with the operation of the Turnpike are not pledged or otherwise available to pay debt service on the Series 1994 Bonds. Interest on the Series 1994 Bonds is payable on the first day of each December and June.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (continued):

In 1996, \$5,900 of Raleigh County, West Virginia Commercial Development Revenue Bonds, Series 1996 (the Series 1996 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the issuer) and a Trust Indenture, dated as of November 1, 1996 (the Indenture). The bond proceeds were used to advance refund the \$6,000 portion of the Series 1994 Bonds, which are no longer outstanding. The terms and conditions of the Series 1996 Bonds are similar to those of the Series 1994 Bonds noted above as toll revenues derived by Parkways in connection with the operation of the Turnpike are not pledged or otherwise available to pay debt service on the Series 1996 Bonds. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$970 over a nine year period (life of the refunding bonds). Interest on the Series 1996 Bonds is payable on the first day of each December and June.

In 2002, \$5,695 of Raleigh County, West Virginia, Taxable Commercial Development Revenue Refunding Bonds, Series 2001 A and \$5,900 of Commercial Development Revenue Bonds, Series 2001 B (the Series 2001 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the issuer), and a Trust Indenture, dated December 1, 2001 (the Indenture). The bond proceeds of the Series 2001A were used to advance refund \$1,735 of the Series 1994 Bonds and \$4,075 of the Series 1996 Bonds, which remain outstanding. The advance refunding resulted in a \$491 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2011, approximated \$27 in 2002. The Series 2001B Bonds were issued to construct and furnish an expansion of the Caperton Center. The terms and conditions of the Series 2001 Bonds are similar to those of the Series 1994 Bonds noted above as toll revenues derived by the Authority in connection with the operation of the Turnpike are not pledged or otherwise available to pay debt service on the Series 2001 Bonds. The Parkway completed the advance refunding to remove certain restrictive indenture requirements of the Series 1994 and 1996 bonds. The refunding resulted in an economic loss (difference between the present value of the old and new debt service payments) of \$583. Interest on the Series 2001 bonds is payable on the first day of each December and June.

Additionally in 2002, \$44,205 of Revenue Refunding Bonds were issued for the express purpose of defeasing \$36,036 of Series 1993 Bonds, all of which remain outstanding at June 30, 2002. The advance refunding resulted in a \$6,313 deferred loss arising for the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$155 in 2002. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$3,003 over an 18-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,624.

Also, in February 2002, Parkways entered into a forward swap agreement with a financial institution. This agreement was executed to lock in the interest rate associated with the issuance of the Series 2003 Bonds, to be issued in February 2003, the proceeds of which will be used to refund the remaining Series 1993 bonds outstanding. Parkways will issue the Series 2003 Variable Rate Demand Revenue Refunding Bonds with weekly variable rates on February 18, 2003, and pay a fixed rate to the financial institution which will then pay the weekly variable rate. The Series 2003 Bonds will be issued under the provisions of the Indenture of Trust dated February 15, 1993 as supplemented by the Series 2003 Bonds Supplemental Indenture expected to be dated as of February 18, 2003.

West Virginia Department of Transportation
 Notes to the Financial Statements
 Year Ended June 30, 2002
 (amounts expressed in thousands)

50

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (continued):

The following schedule summarizes the revenue bonds outstanding for Parkway's as of June 30, 2002:

	Beginning Balance	Additions	Reductions	Amortization	Ending Balance
Revenue Bonds:					
Series 1993	\$ 112,887	\$ -	\$ 43,802	\$ 1,856	\$ 70,941
Series 1994	1,717	-	1,717	-	-
Series 1996	3,984	-	3,984	-	-
Series 2001	-	10,667	310	42	10,399
Series 2002	<u>-</u>	<u>39,619</u>	<u>2,255</u>	<u>112</u>	<u>37,476</u>
Total Revenue Bonds	118,588	50,286	52,068	2,010	118,816
Compensated absences	<u>1,806</u>	<u>478</u>	<u>-</u>	<u>-</u>	<u>2,284</u>
Total long-term obligations	<u>\$ 120,394</u>	<u>\$ 50,764</u>	<u>\$ 52,068</u>	<u>\$ 2,010</u>	<u>\$ 121,100</u>

Debt service requirements for Parkway's long-term debt are as follows:

Year Ending <u>June 30</u>	Revenue Bonds		
	<u>Principal Maturities</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,625	\$ 13,952	\$ 16,577
2004	2,760	14,188	16,948
2005	2,681	13,649	16,330
2006	2,847	13,667	16,514
2007	2,891	13,129	16,020
2008-2012	36,235	24,758	60,993
2013-2017	45,510	13,439	58,949
2018-2029	<u>20,341</u>	<u>1,734</u>	<u>22,075</u>
	<u>\$ 115,890</u>	<u>\$108,516</u>	<u>\$ 224,406</u>

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for bonds to maintain their tax-exempt status. The estimated arbitrage rebate payable was zero at June 30, 2002.

As a result of State legislation enacted during 1998 Parkways is required to pay \$250,000 per year for four years beginning in fiscal year 2000 to the Hatfield-McCoy Regional Recreation Authority.

NOTE 11 - TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Department 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 Department may be released from its obligation only at the option of the lessor. The Department is obligated under these operating leases, which expire December 31, 2002, for rental payments of approximately \$1,796 annually. Management expects the leases to be renewed upon expiration.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

51

NOTE 11 - TRANSACTIONS WITH THE STATE OF WEST VIRGINIA (Continued)

During the year ended June 30, 2002 the Department incurred payroll related expenditures for the Primary Government and the component units of approximately \$23,272 for employee health insurance benefits and approximately \$8,881 for employee workers' compensation benefits, which are paid into funds administered by the West Virginia Public Employees Insurance Agency and Workers' Compensation Fund, respectively.

Monies were paid from the State Road Fund to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately \$5,466 during the year ended June 30, 2002.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Department with various contractors approximated \$507,817 at June 30, 2002. In addition, Parkways had contractual commitments totaling \$23,100 for various Turnpike System improvement projects, including the construction of the Caperton Center addition for which approximately \$8,500 had been expended.

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

During the year ended June 30, 1989, the Department in-substance defeated Huntington Bridge Revenue Bonds dated January 1, 1965, by authorizing the West Virginia Municipal Bond Commission (MBC), the bond fiscal agent, to purchase U.S. government securities which will mature on dates to coincide with the remaining principal and interest payments. At June 30, 2002, \$2,295 of these bonds were outstanding and are considered defeated. Accordingly, the assets and liability for these defeated bonds have been excluded from the Department's financial statements.

NOTE 13 - RETIREMENT PLAN

PLAN DESCRIPTION - The Department contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2002
(amounts expressed in thousands)

52

NOTE 13 - RETIREMENT PLAN (Continued)

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 14% of annual covered payroll, including the Department's contribution of 9.5%, which is established by PERS. The Department's contributions to PERS for the primary government and the component units for the years ended June 30, 2002, 2001, and 2000 were \$19,080, \$18,720 and \$17,557 respectively, equal to the required contributions for each year. The contribution rate for the Department will rise to 10.5% effective July 1, 2003.

NOTE 14 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM), the Public Employees Insurance Agency (PEIA), and the Workers' Compensation Fund (WCF) 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 WCF provides coverage for work related accidents and is considered an insurance enterprise fund. The Department retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 10, amounts of settlements have not exceeded insurance coverage in the past three years. The Department has evaluated this potential risk of loss as discussed in Note 10.

Through its participation in the PEIA and WCF, the Department has obtained health coverage and coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and WCF, the Department has transferred its risks related to health coverage and job related injuries of employees. These entities issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to these specific entities.

NOTE 15 - IMPACT OF FLOODS

In May and July of 2001 and May of 2002, the State of West Virginia experienced significant flooding. The Department incurred significant expenditures related to emergency work as a result of these floods. The Department worked to recover from these floods, which occurred in southern West Virginia, and to complete work associated with previous disaster projects, which were in process but not completed in prior years. The Department recognizes it is extremely important for local economies to have transportation access restored immediately. During the fiscal year the Department incurred expenditures of approximately \$31,700 on roads deemed eligible for Federal Emergency Management Assistance (FEMA), and \$17,200 on roads deemed eligible for FHWA assistance, to repair and restore damaged roadways to operation. The Department was reimbursed for \$19,500 of expenditures on FEMA routes and \$8,100 on FHWA routes. The unreimbursed expenditures are reflected within the road fund balances.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2002
 (amounts expressed in thousands)

54

	<u>Motor Vehicle Fees</u>	<u>Public Transit</u>	<u>Aeronautics Commission</u>	<u>Port Authority</u>	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 14,500	\$ 801	\$ 630	\$ -	\$ 15,931
Receivables	609	381	36	86	1,112
Taxes receivable	-	-	143	-	143
Due from other State of West Virginia agencies	83	-	-	-	83
Inventories	934	-	-	-	934
Other assets	487	-	-	-	487
Total assets	\$ 16,613	\$ 1,182	\$ 809	\$ 86	\$ 18,690
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 614	\$ 350	\$ 19	\$ 68	\$ 1,051
Retainages payable	-	-	11	-	11
Accrued payroll and related liabilities	105	19	9	18	151
Due to other State of West Virginia agencies	3,627	-	-	-	3,627
Due to other states	3,255	-	-	-	3,255
Deferred revenue	472	-	-	-	472
Total liabilities	8,073	369	39	86	8,567
Fund balances					
Reserved for inventories	934	-	-	-	934
Unreserved, undesignated	7,606	813	770	-	9,189
Total fund balances	8,540	813	770	-	10,123
Total liabilities and fund balances	\$ 16,613	\$ 1,182	\$ 809	\$ 86	\$ 18,690

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

55

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Debt Service	Total Nonmajor Governmental Funds
Revenues						
Taxes						
Aviation fuel	\$ -	\$ -	\$ 483	\$ -	\$ -	\$ 483
License, fees and permits						
Motor vehicle registrations and licenses	3,993	-	-	-	-	3,993
Federal aid	1,787	5,273	915	1,106	-	9,081
Investment and interest income, net of arbitrage rebate	-	-	25	-	314	339
Payments from primary government	-	1,371	915	579	-	2,865
Miscellaneous revenues	-	517	-	-	-	517
	<u>5,780</u>	<u>7,161</u>	<u>2,338</u>	<u>1,685</u>	<u>314</u>	<u>17,278</u>
Expenditures						
Current						
Support and administrative operations	4,530	7,041	2,670	1,685	-	15,926
Debt service	-	-	-	-	36,976	36,976
	<u>4,530</u>	<u>7,041</u>	<u>2,670</u>	<u>1,685</u>	<u>36,976</u>	<u>52,902</u>
Excess (deficiency) of revenues over expenditures	<u>1,250</u>	<u>120</u>	<u>(332)</u>	<u>-</u>	<u>(36,662)</u>	<u>(35,624)</u>
Other financing sources (uses)						
Operating transfers in	-	-	-	-	35,859	35,859
Operating transfers out	-	-	-	-	(132)	(132)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,727</u>	<u>35,727</u>
Total other financing sources (uses)						
Net change in fund balances	1,250	120	(332)	-	(935)	103
Fund balances, beginning of year	<u>7,290</u>	<u>693</u>	<u>1,102</u>	<u>-</u>	<u>935</u>	<u>10,020</u>
Fund balances, end of year	<u>\$ 8,540</u>	<u>\$ 813</u>	<u>\$ 770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,123</u>

COMPLIANCE AND INTERNAL CONTROL REPORTS



CERTIFIED PUBLIC ACCOUNTANTS

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

To the Secretary
West Virginia Department of Transportation
Charleston, West Virginia

We have audited the financial statements of the West Virginia Department of Transportation as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002, which expressed reliance on other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Parkways, Economic Development and Tourism Authority, which represents 95% of the total assets and 92 % of the operating revenues of the proprietary discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Parkways, Economic Development and Tourism Authority was based solely on the report of the other auditors. Our report on compliance and internal control over financial reporting, insofar as it relates to compliance and internal control over financial reporting for Parkways, Economic Development and Tourism Authority is based solely on the report of other auditors.

Compliance

As part of obtaining reasonable assurance about whether the West Virginia Department of Transportation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2002-2 through 2002-8. Additionally, we noted certain immaterial instances of noncompliance that we have reported to management of the West Virginia Department of Transportation in a separate letter dated October 31, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the West Virginia Department of Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the West Virginia Department of Transportation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1 through 2002-8.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, West Virginia 25301
Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008 • E-mail: cpa@suttlecpas.com

Members of: American Institution of Certified Public Accountants • Private Companies Practice Section • West Virginia Society of Certified Public Accountants

POLARIS™
INTERNATIONAL

A Professional Limited Liability Company
www.suttlecpas.com

CPA

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the accompanying schedule of findings and questioned costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the West Virginia Department of Transportation in a separate letter dated October 31, 2002.

This report is intended solely for the information of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Suttle & Stalnaker, PLLC

October 31, 2002



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

To the Secretary
 West Virginia Department of Transportation
 Charleston, West Virginia

Compliance

We have audited the compliance of the West Virginia Department of Transportation with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The West Virginia Department of Transportation's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the West Virginia Department of Transportation's management. Our responsibility is to express an opinion on the West Virginia Department of Transportation's compliance based on our audit.

The West Virginia Department of Transportation's financial statements include amounts related to the West Virginia State Rail Authority (Authority) which are included in the amounts for proprietary discretely presented component units. The Authority disbursed \$287,046, in federal awards which are not included in the accompanying Schedule of Expenditures for Federal Awards for the year ended June 30, 2002. Our audit, described below, did not include the major programs of the West Virginia State Rail Authority because it is responsible for obtaining a separate audit of its federal award programs.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the West Virginia Department of Transportation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the West Virginia Department of Transportation's compliance with those requirements.

In our opinion, the West Virginia Department of Transportation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2002-12.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, West Virginia 25301
 Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008 • E-mail: cpa@suttlecpas.com

Members of: American Institution of Certified Public Accountants • Private Companies Practice Section • West Virginia Society of Certified Public Accountants
 A Professional Limited Liability Company
www.suttlecpas.com

POLARIS™
 INTERNATIONAL

CPA

Internal Control Over Compliance

The management of the West Virginia Department of Transportation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the West Virginia Department of Transportation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the West Virginia Department of Transportation's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-9 through 2002-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the West Virginia Department of Transportation as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analyses as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of management of the West Virginia Department of Transportation. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 31, 2002

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Division</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Passed-through State of West Virginia Auditors Office			
Cooperative Forestry Assistance	DOH	10.664	\$ 224,247
Schools and Roads - Grants to States	DOH	10.665	<u>390,733</u>
Total U.S. Department of Agriculture			<u>614,980</u>
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Airport Improvement Program	PA	20.106	1,105,564
Airport Improvement Program	AC	20.106	823,168
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	267,198,617
Appalachian Development Highway System	DOH	23.003	145,239,849
Recreational Trails Funding Program	DOH	20.219	625,981
Federal Transit Capital Improvement Grant	PT	20.500	1,728,088
Federal Transit Technical Studies Grant	PT	20.505	216,718
Public Transportation for Nonurbanized Areas	PT	20.509	2,169,522
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	1,103,862
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	1,562,557
Alcohol Traffic Safety and Drunk Driving Prevention			
Incentive Grants	DMV	20.601	121,970
Occupant Protection Incentive Grants	DMV	20.602	49,373
Federal Highway Safety Data Improvement Incentive Grants	DMV	20.603	42,793
Safety Incentive Grants for Use of Seatbelts	DMV	20.604	<u>10,711</u>
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			<u>421,998,773</u>
U.S. Federal Emergency Management Agency			
Passed-through State of West Virginia Office of Emergency Services			
Public Assistance Grants	DOH	83.544	<u>19,482,989</u>
Total U.S. Federal Emergency Management Agency			<u>19,482,989</u>
Total Federal Expenditures			<u>\$ 442,096,742</u>

AC Aeronautics Commission
 DMV Division of Motor Vehicles
 DOH Division of Highways
 PA Port Authority
 PT Public Transit

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the West Virginia Department of Transportation, and is presented on the accrual basis of accounting. The Schedule does not include federal awards received and expended by the discretely presented component units of the Department as described in Note 1 to the Department's financial statements for the year ended June 30, 2002. These organizations are responsible when necessary, for obtaining separate audits of their federal award programs. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the West Virginia Department of Transportation provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided to Subrecipients</u>
Highway Planning and Construction	20.205	\$ 6,284,812
Federal Transit Technical Studies Grant	20.505	216,718
Federal Transit Capital Improvement Grants	20.500	565,842
State and Community Highway Safety	20.600	1,058,315
Public Transportation for Nonurbanized Areas	20.509	<u>1,866,157</u>
		<u><u>\$ 9,991,844</u></u>

NOTE 3 - MAJOR FEDERAL AWARD PROGRAM

The program guidelines for the U.S. Appalachian Regional Commission "Appalachian Development Highway System" incorporated the U.S. Department of Transportation Program regulations. Accordingly, the combined funding for U.S. Department of Transportation and U.S. Appalachian Regional Commission is treated as a single federal award program cluster for the purpose of compliance testing.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002**

Program	Findings/Noncompliance	Questioned Cost
2001-4 CFDA# 20.205/23.003 Highway Planning, Research and Construction Cluster	<p><u>Independent Engineer's Cost Estimate</u> - We noted several instances in which the engineer's cost estimate was not prepared by the Department until after the consultant's price proposal was received.</p> <p><u>Current Year Status</u> - Not Resolved</p> <p><u>Management Response</u> - <i>As noted in our response to the 2001 audit, the Department has undertaken various actions to address this issue. The Department feels that the actions taken this past year will ensure that future cost estimates will be prepared in a timely manner. The actions taken by the Department included vacancies being filled in the Consultant Services Section of the Engineering Division, and additional staff were assigned to Contract Administration Division to address staff and time limitations. The backlog of pending consultant agreements has been reduced from approximately 425+ two years ago to approximately 200 this year. The combination of additional staff and decreasing backlog of agreements will allow the Department to prepare the independent engineer's estimate prior to receipt of the consultant fee proposals. A memorandum has been sent from the Deputy State Highway Engineer, Development, to all Districts and Divisions involved with Consultant Engineering Services, stating that their District/Division must prepare the independent engineers cost estimate prior to receipt of the consultant fee proposal.</i></p>	N/A

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002**

Program	Findings/Noncompliance	Questioned Cost
2001-5 CFDA# 20.205/23.003 Highway Planning, Research and Construction Cluster	<p><u>Procurement of Architectural and Engineering Services</u> - We noted the following during our review of documentation related to the procurement of architectural and engineering services:</p> <ul style="list-style-type: none"> • The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire and/or Consultant Cost Accounting Information Statement on file for three of the projects selected for review. • For one of the projects reviewed, the members of the selection committee were not documented. • For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. <p><u>Current Year Status</u> - Not Resolved</p> <p><u>Management Response</u> - <i>As noted in our response to the 2001 audit, the Department has undertaken various actions to address this issue. The Department feels that the actions taken this past year will ensure that the required documentation will be maintained in the project files. The actions taken by the Department included a memorandum from the Deputy State Highway Engineer, Development, has been sent to all Districts and Divisions involved with Consultant Engineering Services. This memorandum emphasizes that all documentation related to procurement of Consultant Engineering Services must be placed in the project files. Each District/Division was instructed to take any necessary action to ensure that project files are maintained, and contain all documentation required by Chapter 5A, Article 8, Section 9 of the West Virginia Code.</i></p>	N/A

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002**

Program	Findings/Noncompliance	Questioned Cost
2001-6 CFDA# 20.205/23.003 & 20.500 Highway Planning, Research and Construction Cluster, Federal Transit Capital Improvement Grants	<p><u>Information Systems Controls</u> - The Department operates a wide variety of computer applications, many of which affect federal and state programs data. During our review of the information systems controls we noted the following:</p> <ul style="list-style-type: none"> • There are no formal policies and procedures for review and monitoring of the user account access maintenance. • There were numerous user accounts which were listed as active but had not been utilized for several months and had not been removed from the active list. • There were several user accounts that did not belong to current employees of the Department. • There are no formal policies and procedures for review and monitoring various information system security reports such as the “failed access report.” 	N/A

Current Year Status - Partially Resolved

Management Response - *We have made progress toward some of the specific items noted with this recommendation. We have established formal network logon/password policies and we have electronically interfaced the monthly mainframe report of terminated personnel with the PC network user accounts system to automate account deletions. Also, we have cooperated fully with the Information Services and Communications Division in the statewide initiative to perform periodic intrusion detection. The first test resulted in no unknown or unacceptable accesses from outside the Department computer network. We will continue to cooperate with IS&C on this and all other security policies and programs.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002

66

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<u>Unqualified Opinion</u>		
Internal control over financial reporting:	<input type="checkbox"/>	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> X no
Material weakness(es) identified?	<input type="checkbox"/>	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> X	<input type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> X	<input type="checkbox"/> yes	<input type="checkbox"/> no

Federal Awards

Internal control over major programs:	<input type="checkbox"/>	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> X no
Material weakness(es) identified?	<input type="checkbox"/>	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> X no
Reportable condition(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> X	<input type="checkbox"/> yes	<input type="checkbox"/> none reported
Type of auditors' report issued on compliance for major programs:	<u>Unqualified Opinion</u>		
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	<input type="checkbox"/> X	<input type="checkbox"/> yes	<input type="checkbox"/> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	<u>Highway Planning and Construction Cluster</u> <u>Highway Planning and Construction</u>
23.003	<u>Appalachian Development Highway System</u>
83.544	<u>Public Assistance Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$3,000,000</u>
--	--------------------

Auditee qualified as low-risk auditee?	<input type="checkbox"/>	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> X no
--	--------------------------	------------------------------	--

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002

67

SECTION II

FINANCIAL STATEMENT

FINDINGS SECTION

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

2002-1

Information Systems Controls

See related finding at 2002-9.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

69

2002-2

Accounts Receivable Collection and Financial Reporting

Criteria:

Article V of the Constitution of West Virginia states in part that, “the legislative, executive and judicial departments shall be separate and distinct, so that neither shall exercise the powers properly belonging to either of the others.” Furthermore, Article 10, Section 6 of the Constitution of West Virginia states in part that, “credit of the state shall not be granted to, or in aid of any county, city, township, corporation or person; nor shall the state ever assume, or become responsible for the debts or liabilities of any county, city, township, corporation or person.” Furthermore, the Division’s accounts receivable policies and procedures state that entities with past due balances will have credit discontinued until the account is brought current.

Condition:

We noted that management of the Division has extended credit to other entities, including State agencies and political subdivisions that have accounts receivable balances that are past due. Thus, the Division significantly decreases their ability to collect these balances through the regular collection process. Furthermore, the Division does not have policies and procedures for analyzing and adjusting on a monthly basis the allowance for doubtful accounts as reported in the Division’s financial statements.

Context:

The total allowance for doubtful accounts as of June 30, 2002 was approximately \$2.5 million. The total accounts receivable for this category of transactions as of June 30, 2002 was approximately \$8.2 million.

Cause:

Management of the Division has extended credit to entities, including other State agencies and political subdivisions of the State that have accounts receivable balances that are past due. Furthermore, the Division does not have policies and procedures for analyzing and adjusting on a monthly basis the allowance for doubtful accounts as reported in the Division’s financial statements.

Effect:

The extension of credit to other State agencies and political subdivisions could be construed as the Division appropriating funds, thus usurping the constitutional authority of the legislature. Also, the net realizable value of accounts receivable may be overstated on financial reports prepared by the Division.

Recommendation:

We recommend that the Division suspend the extension of credit to entities, including other State agencies and political subdivisions with past due balances until the account is brought current. Also, we recommend that the Division evaluate accounts with balances outstanding to identify any other State agencies or political subdivisions that should not be granted credit due to a history of late payment. In addition, the Division should review its policies and procedures to determine if changes are needed and should develop policies and procedures for analyzing the amount reported in the allowance for doubtful accounts in the Division’s financial statements.

Management Response:

The Division of Highways agrees with the recommendation that a policy be developed to analyze the allowance accounts for Accounts Receivable. The Accounts Receivable Supervisor is preparing an analytical spreadsheet with historical information to better support making adjustments to our allowance accounts. We will incorporate the policy dealing with the allowance account into the existing collection policy for the Accounts Receivable Section. We also offer the following comments:

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

70

2002-2

Accounts Receivable Collection and Financial Reporting (Continued)

Management Response:
(Continued)

1. *The Division of Highways does cease credit extension for entities that have past due balances. For hauling permit and escort services accounts through our Enforcement Division, and our "SS" accounts (bid letting and specs) no further charges are allowed until the balance is paid in full. Trucks often have to wait at the state line because we will not issue permits or provide escorts on an overdue account. When entities that have leases with Property Management for sign (logo) rental or property rentals become delinquent, they are noticed that their lease will be cancelled or their signs removed. If payment is not received, these actions are taken.*
2. *In the case of governmental entities, the situation is more complicated. The Division aggressively employs every legal recourse available to collect debts from entities such as County Commissions, Public Service Divisions, Towns, School Boards, Prisons, and State Agencies. We have a record of taking many of these entities to the Court of Claims for Collection, where we have been overwhelmingly successful. However, this is often a more complex situation than can be dealt with a simple refusal of services. For example, we have had Emergency Services Organizations with an outstanding balance need gasoline for an ambulance or a school board for its busses. Often in rural areas we are the only source for gasoline in emergency situations. During the past several years the number of governmental entities obtaining gasoline from the Division of Highways has significantly decreased. It has been our goal to eliminate this service completely, but emergency situations arise where this is impossible. We receive calls from members of the legislature requesting the Division's services for their constituency in dire circumstances such as water hauling during a drought or assistance from flood damage. Some of these situations are on an emergency status from the Governor's Office and some are not. The Division of Highways asserts that government must provide for its citizens particularly in exigent circumstances. The Division has responded to these requests with this premise rather than a strictly financial one. The Division seeks guidance from the Legislature for handling matters such as these and requests for services to governmental entities from the Governor's Office on a non-emergency basis to entities indebted to the Division. The Division is currently carrying balances for many government entities for water emergency services.*
3. *The Division does not agree that the extension of credit to entities with outstanding balances "significantly decreases their ability to collect these balances through the regular collection process". There are two applicable time periods for the collection of debts. We have 2 years to collect non-contractual debts and 10 years to collect debts incurred by contract. The Statute of Limitations begins to run when the debt is incurred or the contract is signed. Therefore, subsequent debts have no effect on collecting a prior debt that has a different Statute of Limitations. During the applicable time period Accounts Receivable, The Claims Division, and ultimately the Legal Division work systematically to obtain payment. Prior to the Statute of Limitations expiring, the debt is referred to the Legal Division where a determination is made whether to file a lawsuit. Many factors are considered primarily being if the entity has sufficient funds or assets to satisfy a judgment. If it appears feasible to file a lawsuit, a case is filed in Circuit Court or a claim in the Court of Claims. When the Division receives a judgment, every means available to execute the judgment is pursued.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

2002-3

Independent Engineer's Cost Estimate

See related finding at 2002-10.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

2002-4

Procurement of Architectural and Engineering Services

See related finding at 2002-11.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

2002-5

Davis Bacon Compliance

See related finding at 2002-12.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

2002-6

Evaluation of Consultant's Work

See related finding at 2002-13.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

75

2002-7

Level of Subcontract/Subconsulting Work

See related finding at 2002-14.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002**

76

2002-8

Contractor Awarded Projects Documentation

See related finding at 2002-15.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

77

SECTION III

FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS SECTION

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002**

78

2002-9 Information Systems Controls

Federal Program Information: CFDA Number

U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003
U.S. Federal Emergency Management Agency	
Public Assistance Grants	83.544

Criteria: The management of the Department is responsible for establishing and maintaining adequate information systems internal controls.

Condition: The Department operates a wide variety of computer applications, many of which affect federal and state programs' data. During our review of the information systems controls we noted the following:

- There are no formal policies and procedures for review and monitoring of the user account access maintenance. (Also noted in prior year)
 - There are no formal policies and procedures for review and monitoring various information system security reports such as the “failed access report.” (Also noted in prior year)
 - There are no policies and procedures in place for conducting periodic intrusion testing of the various computer systems maintained by the Department.
 - There was inadequate security over certain information stored on the Department's computer.

Questioned Costs: N/A

Context: Information systems controls potentially can affect all federal and state programs and are critical to the daily operations of the Department.

Cause: Policies and procedures have not been adequately updated and information system controls have not been monitored by the Department.

Effect: Unauthorized access to critical information systems may occur and not be detected.

Recommendation: We recommend that the Department strengthen their policies and procedures related to information systems controls and ensure that controls are operating as intended.

and Controls Department of the State of West Virginia to ensure that periodic intrusion testing is conducted for all significant systems utilized by the Department. Further, the internal audit group of the Department should consider designing audit procedures for the monitoring and review of information system controls.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

79

2002-10

Independent Engineer's Cost Estimate

Federal Program Information:

CFDA Number

U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003

Criteria:

Section 157-1-7.7b of the Code of State Rules requires the director of the division initiating the request for service to be responsible for preparing an independent engineer's cost estimate prior to the receipt of the fee proposal from the consultant.

Condition:

We noted several instances in which the engineer's cost estimate was not prepared by the Department until after the consultant's price proposal was received.

Questioned Costs:

N/A

Context:

Total expenditures for architectural and engineering services were approximately \$75.3 million for the year ended June 30, 2002.

Cause:

Due to staff and time limitations, the Department has been unable to prepare the independent engineer's cost estimate prior to receipt of the fee proposal from the consultant.

Effect:

The Department is in noncompliance with the Code of State Rules and cost estimates prepared by the Department risk being influenced by submitted proposals.

Recommendation:

We recommend that the Department devote the necessary resources to ensure that the Code of State Rules and its policies and procedures are followed and cost estimates are prepared in a timely manner.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

80

2002-11

Procurement of Architectural and Engineering Services

Federal Program Information:

CFDA Number

U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003

Criteria:

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.

Condition:

We noted the following during our review of documentation related to the procurement of architectural and engineering services:

- The Consulting Services Section of the Engineering Division did not have a Consultant Confidential Qualification Questionnaire on file for one of the projects tested. (Also noted in prior year)
- The Consulting Services Section of the Engineering Division did not have a Consultant Cost Accounting Information Statement on file for one of the projects selected for review.
- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Also noted in prior year)

Questioned Costs:

N/A

Context:

Total expenditures for architectural and engineering services were \$75.3 million for the year ended June 30, 2002.

Cause:

The Department was unable to locate some of the documentation and policies and procedures of the Department do not clearly specify the documentation which should be maintained.

Effect:

The Department was unable to provide supporting documentation related to compliance with the West Virginia State Code.

Recommendation:

We recommend that the Department strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002**

81

2002-12 Davis Bacon Compliance

Federal Program Information: CFDA Number

U.S. Department of Transportation
U.S. Appalachian Regional Commission
Highway Planning and Construction Cluster
Highway Planning and Construction 20.205
Appalachian Development Highway System 23.003

Criteria: The management of the Department is required to ensure that contractors and subcontractors are paying employees the prevailing wage rates as established by the Department of Labor for the locality at the time of the construction payroll.

Condition: The Department obtains certified payrolls from the contractors/subcontractors and is required to perform prevailing wage inspections and issue reports on their findings. During our review of this process we noted the following:

- One project had been active for greater than one year and only had three inspections performed, of which the last inspection was performed in August of 2001. Further, the February inspection on one of these projects was not completed until May of 2002. (District 3)
 - One project that was active for over one year had not been inspected since March of 2001. (District 4)
 - All contractor payrolls for the items selected were properly submitted; however, neither the Labor Interviews nor the Compliance Inspections were provided. (District 7)

Questioned Costs: N/A

Context: Total disbursements for construction-related activities were approximately \$453.8 million for the year ended June 30, 2002.

Cause: Policies and procedures have not been adequately developed to provide district workers with clear and concise direction regarding the frequency and timing of the prevailing wage inspection reports.

Effect: Documentation of the prevailing wage monitoring was not consistent and the Department may be in non-compliance with the requirements of WV State Code and the Davis Bacon Act.

Recommendation: We recommend that the Department strengthen their policies and procedures related to the monitoring of prevailing wage and ensure that controls are operating as designed. The policies and procedures at a minimum should include the frequency and time requirements for performing the prevailing wage monitoring. Further, the internal audit group of the Department should consider designing audit procedures for the monitoring and review of the prevailing wage inspection reports.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002**

82

2002-13 Evaluation of Consultant's Work

Federal Program Information: CFDA Number

U.S. Department of Transportation
U.S. Appalachian Regional Commission
Highway Planning and Construction Cluster
Highway Planning and Construction 20.205
Appalachian Development Highway System 23.003

Criteria: Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, Section 157-1-7.10 of the Code of State Rules requires upon completion or performance termination of the consultant's work, the responsible Division will prepare a report recording its evaluation of the consultant's efforts. A copy shall be sent to the consultant for review and comment and any written comments received shall be attached to the final report. All consultants with active contracts shall be evaluated in March of each year on each active project."

Condition: We noted the following during our review of the Department's evaluation of consultants' work:

- The Consulting Services Section of the Engineering Division did not have timely periodic evaluations of consultant's efforts on file for two projects reviewed.
 - The March annual consultant evaluations could not be located for five of the active projects reviewed.

Questioned Costs: N/A

Context: Total expenditures for architectural and engineering services were \$75.3 for the year ended June 30, 2002.

Cause: The Department indicated that evaluations are performed at the preliminary field review, final field review, and final grade review and that these evaluations may be retained by the project manager in the project files. As of the date of fieldwork, these evaluations had not been provided.

Effect: The Department was unable to provide supporting documentation related to compliance with the West Virginia State Code.

Recommendation: We recommend that the Department strengthen their policies and procedures regarding required documentation for the evaluation of consultants.

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002**

83

Federal Program Information: CFDA Number

U.S. Department of Transportation
U.S. Appalachian Regional Commission
Highway Planning and Construction Cluster
Highway Planning and Construction 20.205
Appalachian Development Highway System 23.003

Criteria: Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, the policies and procedures of the Department require the prime contractor/consultant to perform at least 51% of any contracted service.

Condition: The Consulting Services Section of the Engineering Division reviews the contractors/consultant's cost proposals for the amount of subcontract/subconsulting work proposed; however, the Department has not established procedures to ensure that the contractor/consultant maintains the required 51%.

Questioned Costs: N/A

Context: Total expenditures for contracted/consulted work was approximately \$75.3 for the year ended June 30, 2002.

Cause: The Department has not established controls to monitor the contractors/consultants compliance with the required 51% rule.

Effect: The Department could be contracting with a certain contractor/consultant for specific qualifications but a majority of the services could be provided by an under qualified subcontractor/subconsultant without the Department's approval.

Recommendation: We recommend that the Department develop controls for monitoring the contractor/subcontractor's compliance with the 51% rule.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

84

2002-15

Contractor Awarded Projects Documentation

Federal Program Information:	CFDA Number
------------------------------	-------------

U.S. Department of Transportation U.S. Appalachian Regional Commission Highway Planning and Construction Cluster Highway Planning and Construction Appalachian Development Highway System	20.205 23.003
---	------------------

Criteria:

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: “(b) The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities.” Section 157-3-4.1 of the Code of State Rules requires all Bidders on projects let to contract by the division shall be prequalified as provided for by rules or regulations, or both, of the commissioner. A Certificate of Qualification will be issued by the commissioner fixing the amount of incomplete work a contractor may have under contract at any one time and the type of work for which the contractor is qualified.

To obtain a Certificate of Qualification, the contractor must file a Contractor’s Prequalification Statement containing the information as required based on the category of work for which prequalification is being requested.

Further, the 1980 Division of Highways Construction Manual Addendum #120 “Finalization Procedures”, page 6, step 7, requires the following authorized documentation: “(g) To Date Quantity Validation Report signed by the Project/Resurfacing Section and District Finals Section reviewers.” In addition, Section 157-3-5.6 of the Code of State Rules requires “the contractor shall be required, in addition to any other form of insurance or bonds required under the terms of the contract and specifications, to procure and maintain during the life of the contract the following types of insurance in the amounts set forth.”

Condition:

The Department requires contractors to submit Prequalification Statements 15 days prior to the bid “letting” date. These statements serve to qualify the contractor for the type of work he may be awarded and fixes the amount of incomplete work a contractor may have under contract at any one time. We noted that one contractor award did not submit a Prequalification Statement.

The “To Date Quantity Validation Reports” are used in the “finalization” process for the contractors final payment and show the amount of material approved and used for the project. We noted two instances in which there were no authorizing signatures at the project level on the “To Date Quantity Validation Reports.”

In addition, we noted one instance in which the Department did not have an insurance certificate for a contractor on a specific project.

Questioned Costs:

N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2002

85

2002-15

Contractor Awarded Projects Documentation (Continued)

Context:

Total expenditures for construction related activities were approximately \$453.8 million for the year ended June 30, 2002. The period for which there was no liability insurance certificate was from February 12, 2001 through the completion of the project on October 3, 2001.

Cause:

The Department indicated that the prequalification statements had been discarded and that they were unsure of why the "To Date Quantity Validation Reports" were not authorized and why the insurance certificate could not be located.

Effect:

Without the Prequalification statement, the Department could not ascertain whether the contractor was qualified for the awarded project.

Without the signatures on the "To Date Quantity Validation Reports," the Department could not determine whether the quantity amounts on this report were checked/correct at the project level; this is one step of the "finalization" procedures that must take place in order to process the final payment to the contractor.

Without an insurance certificate, the Department could not satisfy itself as to the contractor being insured for the various liability coverages defined in Section 157-3-5.6 of the West Virginia Code.

Recommendation:

We recommend that the Department strengthen their policies and procedures over the retention of significant documents on contractor awarded projects.