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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2006
AND
INDEPENDENT AUDITORS' REPORTS

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Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

Business Advisors and Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the 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, 2006, 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 West Virginia Parkways, Economic Development and Tourism Authority, a discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the West Virginia 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the West Virginia Department of Transportation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation 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, 2006 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, as of June 30, 2006, 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.

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In accordance with *Government Auditing Standards,* we have also issued a report dated November 6, 2006 on our consideration of the West Virginia Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

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 accompanying 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Suttle & Stalnaker, PLLC

November 6, 2006

MANAGEMENT’S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

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, 2006. This section introduces the basic financial statements and provides an analytical overview of the Department's financial activities. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Department's total combined net assets are $6.6 billion as of the close of fiscal year 2006.

Changes in Net Assets - During the year the Department's expenses were $296 million less than the $1,112 million generated in revenues for governmental activities. This is an increase compared to the prior year, when expenses were $239 million less than revenues.

Revenues and Expenses **-** Total revenues increased by $26 million or 2.35%. Total expenses decreased by $32 million or 3.79%. There were no significant changes in the programs carried out by the Department during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2006, the Department's governmental funds reported combined total fund equity of $246 million, an increase of $15 million in comparison to the prior year. Of this total amount, $211 million represents the "unreserved fund balances" with substantially all being in the general fund. This is approximately 19.23 % of the total governmental fund expenditures for the year.

Long-term Debt - The Department's total outstanding general obligation bonds, net of bond premiums, decreased by $22 million or 4.40% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

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

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Department's net assets, excluding discretely presented component units, as of June 30, 2006 and 2005 (amounts in thousands).

Net Assets as of June 30

	2006	2005	% Change
Total current assets	$ 329,630	$ 331,182	(0.47%)
Capital assets, net of accumulated depreciation	6,953,795	6,693,483	3.89%
Other non-current assets	8,408	9,137	(7.98%)
Total assets	7,291,833	7,033,802	3.67%
Current liabilities	121,996	141,643	(13.87%)
Long term liabilities	527,506	546,057	(3.40%)
Total liabilities	649,502	687,700	(5.55%)
Invested in capital assets, net of related debt	6,475,338	6,193,029	4.56%
Restricted	8,512	10,843	(21.50%)
Unrestricted	158,481	142,230	11.43%
Total net assets	$ 6,642,331	$ 6,346,102	4.67%

The largest component (97.49%) 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 Department uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion, unrestricted net assets, may be used at the Department's discretion.

Condensed Statement of Activities

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

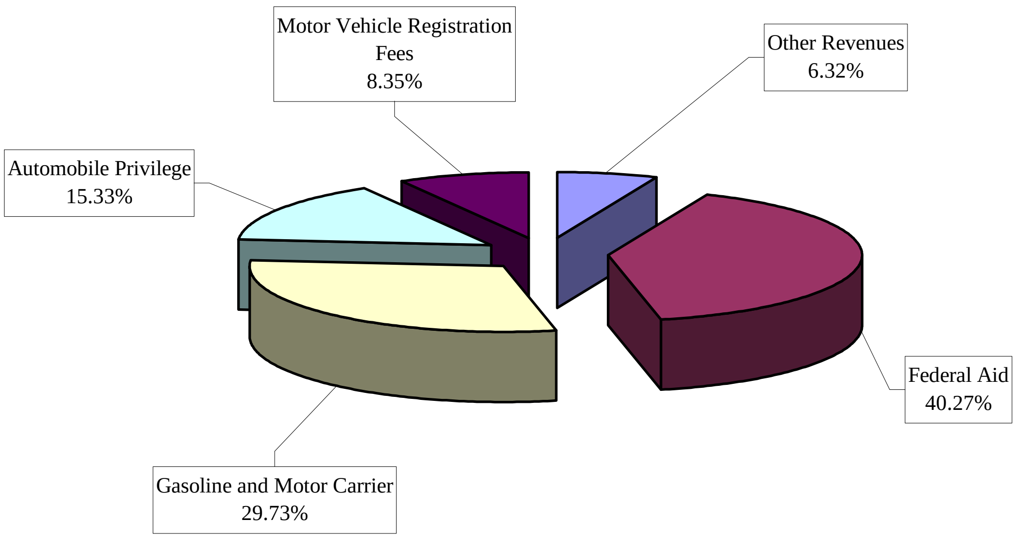
	2006	2005	% Change
Revenues			
Taxes	$ 501,714	$ 500,308	0.28%
Investment and interest income	4,701	1,906	146.64%
Payments from primary government	3,904	4,135	(5.59%)
Miscellaneous revenues	53,716	26,257	104.58%
Total general revenues	564,035	532,606	5.90%
Federal aid	450,743	456,070	(1.17%)
Charges for service	97,160	97,698	(0.55%)
Total program revenues	547,903	553,768	(1.06%)
Total revenues	1,111,938	1,086,374	2.35%
Expenses			
Road maintenance	316,475	322,399	(1.84%)
Other road operations	366,874	382,831	(4.17%)
General and administration	108,047	122,516	(11.81%)
Bond interest and premium	21,283	17,330	22.81%
Unallocated depreciation	3,030	2,745	10.38%
Total expenses	815,709	847,821	(3.79%)
Change in net assets	296,229	238,553	24.18%
Net assets, beginning	6,346,102	6,107,549	3.91%
Net assets, ending	$ 6,642,331	$ 6,346,102	4.67%

Over time, increases and decreases in net assets measure whether the Department's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by $296 million or 4.67% percent.

The Department has decided to report "Licenses, fees and permits" as part of the line item "Charges for service."

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

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



Total revenues increased by approximately $25 million. Total tax revenues increased by approximately $1.4 million. Federal aid revenue decreased by approximately $6.0 million or 1.32%. The following summarizes revenues for the years ended June 30, 2006 and June 30, 2005 (amounts in thousands):

	2006	2005	Increase (decrease)	% Increase (decrease)
Gasoline and motor carrier road tax	$ 330,538	$ 320,891	$ 9,647	3.01%
Aviation fuel	692	654	38	5.81%
Industrial access roads	3,016	2,351	665	28.29%
Automobile privilege	170,484	178,763	(8,279)	(4.63%)
Motor vehicle registration fees	92,870	93,144	(274)	(0.29%)
Special fees and permits	4,290	4,554	(264)	(5.80%)
Federal aid	447,727	453,719	(5,992)	(1.32%)
Investment and interest income	4,701	1,906	2,795	146.64%
Payments from primary government	3,904	4,135	(231)	(5.59%)
Miscellaneous revenues	53,716	26,257	27,459	104.58%
	$ 1,111,938	$ 1,086,374	$ 25,564	2.35%

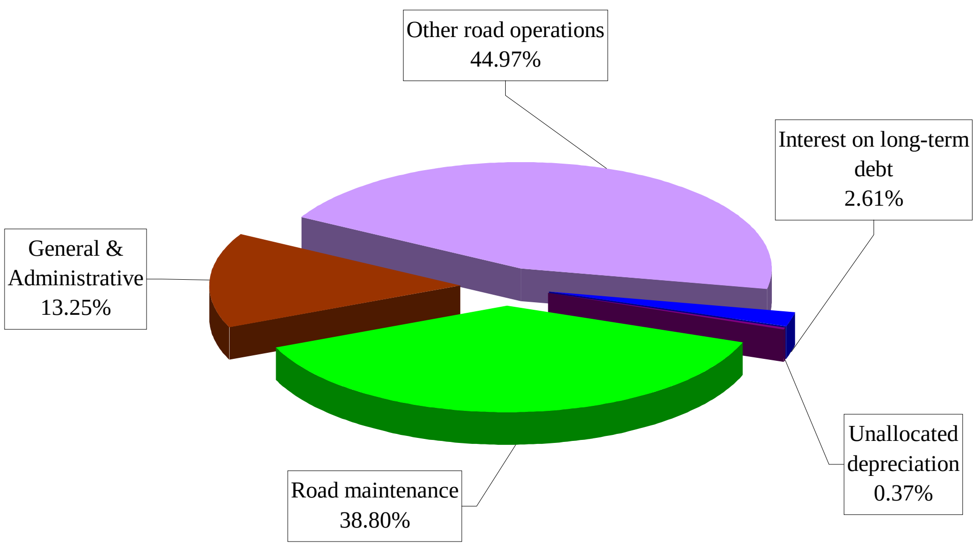
The Department's primary sources of revenue for funding of ongoing administration of the Department, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2002 through fiscal year 2006, actual cash revenues exceeded estimates by only .87%. While those extra dollars allowed the Department to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the Department to undertake many new projects. In fact, some areas of expenditures were reduced during periods of less than desirable fund equity levels. Revenues are projected to remain relatively flat through fiscal year 2007, while at the same time it is anticipated that nondiscretionary costs will continue to rise. As a consequence, many programs that are operated by the Department will experience little, if any, increase in the foreseeable future and some programs may revert to lower funding levels.

The Department also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Department expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2006 were authorized under the new Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

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



Total expenses increased by approximately $32 million or 3.79%. The following summarizes expenditures for the years ended June 30, 2006 and June 30, 2005 (amounts in thousands):

	2006	2005	Increase (decrease)	% Increase (decrease)
Road maintenance	$ 316,475	$ 322,399	$ (5,924)	(1.84%)
Other road operations	366,874	382,831	(15,957)	(4.17%)
General and administration	108,047	122,516	(14,469)	(11.81%)
Bond interest and premium	21,283	17,330	3,953	22.81%
Unallocated depreciation	3,030	2,745	285	10.38%
	$ 815,709	$ 847,821	$ 32,112	(3.79%)

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

Operating divisions are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow and ice removal that is required in a given year.

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.

Discretely 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, 2006 the cash flows from operations were $(170) thousand compared to $(136) 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 $3.2 million, a decline of $199 thousand compared to the prior year.

The West Virginia Parkways, Economic Development and Tourism Authority (Parkways) 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 $4.3 million or 6.57% for the fiscal year ended June 30, 2006. Operating expenses increased by $1.9 million or 2.83% for the same period primarily due to increased maintenance costs associated with the harsh winter. The Authority experienced net losses during fiscal years ended June 30, 2006 and 2005 but generated positive cash flows from operating activities in excess of $28 million in 2006 and 2005.

Further analysis of changes in the financial results of the discretely 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.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S MAJOR FUNDS

At June 30, 2006, the Department reported fund balances of $246 million. Of this total amount, $211 million, 85.77%, constitutes unreserved fund balances, which are available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Department's largest Fund, and is used to account for all activities not accounted for in other funds. At the end of the 2006 fiscal year, unreserved fund balance of the Fund was $197 million and reserved fund balance was $35 million. The total fund balance increased $14 million during the year primarily due to increased revenue.

State Road Fund and Budgetary Highlights

The Department is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have remained fairly constant over the past several years, any future changes in consumption rates would have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. For five of the previous six years, tax and fee revenue collections increased over the previous year. Tax and fee revenue collections increased by approximately $2 million during the current year.

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

	2006	2005	2006 vs. 2005 Change	2006 vs. 2005 %Change
Gasoline, motor carrier and wholesale fuel	$ 330,538	$ 320,891	$ 9,647	3.01%
Motor vehicle registration	92,681	93,144	(463)	(0.50%)
Privilege tax	170,484	178,763	(8,279)	(4.63%)
Other taxes and fees	7,306	6,905	401	5.81%
	$ 601,009	$ 599,703	$ 1,306	0.22%

On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. In September 2005, the Governor of West Virginia issued an executive order to freeze the variable rate at its January 1, 2005 level of 6.5 cents per invoiced gallon. That executive order is in effect through December 31, 2006.

Automobile privilege tax collections were positively impacted from 2002 through 2005 by low interest rates and significant incentives offered by automobile manufacturers. The automobile privilege taxes declined 8.3 million in 2006, however a decline was expected.

The Department's federal revenue for budgetary purposes for fiscal year 2006 was $393 million, to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 121, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	2006	2005	Change	%Change
Federal reimbursement - budgeted funds	$ 423,979	$ 428,424	$ (4,445)	(1.04%)
Federal reimbursement - emergency funds	5,604	12,155	(6,551)	(53.90%)
Total federal aid	$ 429,583	$ 440,579	$ (10,996)	(2.50%)

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 2007 budget reflects a budgeted decrease in fund balance of approximately $17 million. Management is taking all necessary steps to ensure that the fund balance of the Department is maintained at levels that are adequate to ensure the soundness of the Department and is confident that adequate discretionary items exist to permit the Department to continue to operate in a fiscally sound manner. Under the newly enacted SAFETEA-LU, the Department expects to annually receive an average of $403 million in federal funding. In order to capture the extra federal aid available, the Department will need an additional $15 million annually in state matching funds, which will raise the total needed annually from $86 million to $101 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2006, the Department had invested $7 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled $268 million.

The $260 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. 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 $268 million in depreciation. The Department expended $528 million dollars during the year ended June 30, 2006 for additions to capital assets, including infrastructure. Of this amount, $499 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 $228 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County, Corridor D in Wood County, upgrade of WV 10 in Logan County, widening of I-64, upgrade of WV route 9 in the Eastern Panhandle, upgrade of US route 35 in Putnam County, upgrade of US Route 52 in Mingo County, upgrade of WV 121 in Raleigh County and continued environmental studies on various projects in process.

Discretely Presented Component Units:

As of June 30, 2006, the discretely presented component units had invested $566 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 $31 million. Capital assets declined by approximately 2.61% as $17 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, 2006, the Division had $448 million in outstanding bonds. The amount outstanding decreased by $20 million (4.26%) due to net principal payments.

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

Issue	Status of insurance	Bond Rating		Amount (in thousands)	
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: Moody's: S&P:	AAA Aaa AAA	$	56,755
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-		6,560
Safe Roads 01A - Bonds maturing between June 1, 2006 to 2013	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		67,120
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-		2,045
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA		315,515
				$	447,995

The Department is expected to issue revenue bonds in the amount of $78 million in October 2006. It is anticipated that another estimated $95 million will be issued during January 2007. These bonds will be revenue bonds and the debt service payments will be funded through federal aid revenue.

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

Discretely 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 Parkways' outstanding debt is approximately $5.6 million less at June 30, 2006 than it was in 2005. Parkways 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.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET ASSETS
JUNE 30, 2006
(amounts expressed in thousands)

	Primary Government	Component Units	
	Governmental Activities	Parkways, Economic Development and Tourism Authority	State Rail Authority
ASSETS			
Current assets			
Cash and cash equivalents	$ 132,517	$ 7,324	$ 2,029
Short term investments	-	16,935	-
Accounts receivable, net	92,876	1,445	52
Taxes receivable	68,266	-	-
Accrued interest receivable	-	250	-
Due from other State of West Virginia agencies	296	-	844
Inventories	35,514	2,352	77
Other assets	161	338	6
Total current assets	329,630	28,644	3,008
Non-current assets			
Capital assets, net of accumulated depreciation			
Land - non-infrastructure	15,701	53,247	4,836
Land improvements	4,483	-	-
Land improvements-work in progress	437	-	-
Buildings	66,637	53,814	-
Buildings - construction in progress	1,270	-	-
Furniture and fixtures	511	-	149
Rolling stock	60,903	4,358	444
Scientific equipment	636	-	-
Shop equipment	86	-	-
Roads	3,583,095	-	-
Bridges	1,224,855	-	-
Land - infrastructure	806,875	-	-
Toll road	-	419,783	-
Rail property	-	-	29,479
Work in progress	1,188,306	-	-
Total capital assets	6,953,795	531,202	34,908
Non-current investments	-	20,662	-
Non current taxes receivable	5,973	-	-
Other non-current assets	2,435	2,125	-
Total assets	7,291,833	582,633	37,916
LIABILITIES			
Current liabilities			
Accounts payable	46,639	1,327	858
Retainages payable	10,110	-	-
Accrued payroll and related liabilities	16,505	5,714	131
Due to other State of West Virginia agencies	2,447	-	12
Due to other States IRP	3,141	-	-
Accrued interest payable	1,852	777	-
Deferred revenue	355	-	-
Current maturities of long term obligations	40,947	3,739	412
Total current liabilities	121,996	11,557	1,413
Non-current liabilities			
Claims and judgments	9,050	-	-
Compensated absences	60,599	2,959	124
Long-term debt obligations	457,857	97,893	425
Total non-current liabilities	527,506	100,852	549
Total liabilities	649,502	112,409	1,962
NET ASSETS			
Invested in capital assets, net of related debt	6,475,338	429,570	34,071
Restricted	8,512	34,138	-
Unrestricted	158,481	6,516	1,883
Total net assets	$ 6,642,331	$ 470,224	$ 35,954

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

Functions/Programs	Primary Government: Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Assets	Component Units
Primary Government					
Government activities					
Road maintenance					
Expressway, trunkline & feeder & SLS	$ 236,326	$ -	$ -	$ (236,326)	$ -
Contract paving & secondary roads	48,345	-	-	(48,345)	-
Small bridge repair & replacement	14,135	-	-	(14,135)	-
Litter control program	1,744	-	-	(1,744)	-
Depreciation	15,925	-	-	(15,925)	-
Other road operations					
Interstate highways	4,479	-	53,359	48,880	-
Appalachian highways	4,434	-	104,228	99,794	-
Other federal aid programs	92,941	-	290,140	197,199	-
Non federal aid improvements	10,257	-	-	(10,257)	-
Industrial access roads	5,475	-	3,016	(2,459)	-
Depreciation	249,288	-	-	(249,288)	-
General and administration					
Support and administrative operations	70,307	4,290	-	(66,017)	-
Claims	3,394	-	-	(3,394)	-
Costs associated with DMV	34,346	92,870	-	58,524	-
Bond interest and premium	21,283	-	-	(21,283)	-
Unallocated depreciation	3,030	-	-	(3,030)	-
Total primary government	$ 815,709	$ 97,160	$ 450,743	(267,806)	-
Component units					
Parkways, Economic Development and Tourism Authority	$ 76,633	$ 69,177	$ -	-	(7,456)
State Rail Authority	3,692	1,946	-	-	(1,746)
Total component units	$ 80,325	$ 71,123	$ -	-	(9,202)
General revenues					
Taxes:					
Gasoline and motor carrier				330,538	-
Aviation fuel				692	-
Automobile privilege				170,484	-
Investment and interest income				4,701	1,510
Gain (loss) on sale of capital assets				-	(184)
Payments from primary government				3,904	3,159
Miscellaneous revenues				53,716	-
Total general revenues				564,035	4,485
Change in net assets				296,229	(4,717)
Net assets, beginning				6,346,102	510,895
Net assets, ending				$ 6,642,331	$ 506,178

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	$ 112,040	$ 20,477	$ 132,517
Receivables	91,554	1,322	92,876
Taxes receivable	64,159	-	64,159
Due from other State of West Virginia agencies	3,691	-	3,691
Inventories	34,592	922	35,514
Other assets	-	161	161
Total assets	$ 306,036	$ 22,882	$ 328,918
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 45,382	$ 1,257	$ 46,639
Retainages payable	10,110	-	10,110
Accrued payroll and related liabilities	16,359	146	16,505
Due to other State of West Virginia agencies	2,357	-	2,357
Due to other states	-	3,141	3,141
Deferred revenue	-	355	355
Due to other funds / agencies	-	3,485	3,485
Total liabilities	74,208	8,384	82,592
Fund balances			
Reserved for inventories	34,592	922	35,514
Unreserved, undesignated reported in special revenue fund	197,236	13,576	210,812
Total fund balances	231,828	14,498	246,326
Total liabilities and fund balances	$ 306,036	$ 22,882	$ 328,918

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(amounts expressed in thousands)

Total fund balances - governmental funds			$	246,326
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.				10,080
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	$	15,701		
Land improvements- non infrastructure		4,483		
Land improvements- work in progress		437		
Buildings		66,637		
Buildings - construction in progress		1,270		
Furniture and Fixtures		511		
Rolling Stock		60,903		
Scientific Equipment		636		
Shop Equipment		86		
Roads		3,583,095		
Bridges		1,224,855		
Infrastructure Land		806,875		
Work in process		1,188,306		6,953,795
Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.				2,435
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		(1,852)		
Claims and judgments		(9,194)		
Compensated absences		(81,250)		
Long-term debt obligations		(478,009)		(570,305)
Net assets of governmental activities			$	6,642,331

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Gasoline and motor carrier	$ 330,538	$ -	$ 330,538
Aviation fuel	-	692	692
Automobile privilege	170,484	-	170,484
Industrial access	3,016	-	3,016
License, fees and permits			
Motor vehicle registrations and licenses	87,534	5,147	92,681
Special fees and permits	4,290	-	4,290
Federal aid	429,583	18,144	447,727
Investment and interest income, net of arbitrage rebate	4,701	-	4,701
Payments from primary government	-	3,904	3,904
Miscellaneous revenues	53,255	461	53,716
	1,083,401	28,348	1,111,749
Expenditures			
Current			
Road maintenance			
Expressway, trunkline and feeder, state and local services	238,425	-	238,425
Contract paving and secondary roads	48,345	-	48,345
Small bridge repair and replacement	22,099	-	22,099
Litter control program	1,744	-	1,744
Support and administrative operations	75,050	26,601	101,651
Division of Motor Vehicles operations	34,346	-	34,346
Claims	397	-	397
Capital outlay and other road operations			
Road construction and other road operations			
Interstate highways	69,406	-	69,406
Appalachian highways	156,141	-	156,141
Other federal aid programs	354,562	-	354,562
Nonfederal aid improvements	20,825	-	20,825
Industrial access road	5,475	-	5,475
Debt service			
Principal	19,920	-	19,920
Interest	23,098	-	23,098
Bond issuance cost	-	-	-
	1,069,833	26,601	1,096,434
Excess (deficiency) of revenues over expenditures	13,568	1,747	15,315
Fund balances, beginning of year	218,260	12,751	231,011
Fund balances, end of year	$ 231,828	$ 14,498	$ 246,326

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, 2006
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	15,315
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 $528,879 exceeded depreciation of ($268,243) in the current period.		260,636
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.		(324)
Repayment of bond principal is an expenditure to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is net of the advance refunding.		19,920
Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year.		189
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 decrease in compensated absences of $1,677, accretion of bond premiums of $2,072 and increase in interest payable of $71, exceeded increase of claims of ($2,997), and amortization of bond issuance costs of ($330).		493
Change in net assets of governmental activities	$	296,229

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	$ 318,000	$ -	$ 318,000	$ 320,757	$ 2,757
Automobile privilege	182,665	-	182,665	171,479	(11,186)
Motor vehicle registrations and licenses	85,160	-	85,160	86,976	1,816
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,005)	(5)
Federal aid	458,818	32,682	491,500	392,821	(98,679)
Miscellaneous revenues	11,479	-	11,479	11,860	381
	1,053,122	32,682	1,085,804	980,888	(104,916)
Expenditures					
Road construction and other road operations					
Interstate highways	80,000	-	80,000	70,871	9,129
Appalachian highways	170,000	(10,000)	160,000	144,972	15,028
Other federal aid programs	300,700	50,000	350,700	347,864	2,836
Nonfederal aid construction	25,000	-	25,000	18,617	6,383
Road maintenance					
Maintenance	249,700	-	249,700	241,257	8,443
Contract paving and secondary roads	50,000	-	50,000	48,273	1,727
Small bridge repair and replacement	30,000	-	30,000	23,035	6,965
Litter control program	1,755	-	1,755	1,755	-
Support and administrative operations					
General operations	44,500	-	44,500	34,260	10,240
Equipment revolving	15,000	7,000	22,000	21,169	831
Inventory revolving	2,000	-	2,000	(4,437)	6,437
Debt service	50,000	(6,900)	43,100	42,364	736
PSC Weight Enforcement	4,566	68	4,634	4,075	559
Division of Motor Vehicles operations	36,900	527	37,427	35,669	1,758
Waste tire	3,426	-	3,426	1,865	1,561
Claims - DOH and DMV	205	199	404	404	-
	1,063,752	40,894	1,104,646	1,032,013	72,633
Excess (deficiency) of revenues over expenditures	(10,630)	(8,212)	(18,842)	(51,125)	(32,283)
Fund balance, beginning of year	134,567	-	134,567	134,567	-
Fund balance, end of year	$ 123,937	$ (8,212)	$ 115,725	$ 83,442	$ (32,283)

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, 2006
(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).

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, 2006 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. The government-wide statement of net assets reports $8,512 restricted assets, of which all is restricted by enabling legislation.

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, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2006, has been reported only in the government-wide financial statements.

- 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-employment 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.

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.

(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 45 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 45 days after the end of the fiscal year, are incorporated into the 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), which includes the A. James Manchin 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 State Road Fund for accounting principles generally accepted in the United States of America 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) - State Road Fund. A reconciliation of the excess of revenues over expenditures for the year ended June 30, 2006, on the budgetary basis to the GAAP basis for the State Road Fund follows:

Excess (deficiency) of revenues over expenditures - budgetary basis	$ (51,125)
Basis of accounting differences (budgetary to GAAP)	67,083
Unbudgeted funds	(2,390)
Excess of revenues over expenditures - GAAP basis.	$ 13,568

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 Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Department at rates specified by the BTI based on the balance of the Department's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the BTI.

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

Parkways and the Authority maintain 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 follows:

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

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

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Building and non-infrastructure land have been recorded at cost since 1983. Except for discretely presented component units, 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.

(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	1 - 20 years
• Scientific equipment	2 - 25 years
• Infrastructure Roads	30 years
• Infrastructure Bridges	50 years
• Toll Road Infrastructure	10-50 years
• Rail property	5-35 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.

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. Expenditures for vacation, sick leave, and post employment 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-employment health insurance as a liability.

POST EMPLOYMENT BENEFITS - 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 between that date and July 1, 2001. Employees who were eligible and elected to participate in the Department's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the post retirement benefits. Employees hired subsequent to July 1, 2001 are not eligible for these benefits. Expenditures for post employment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-employment health insurance as a liability.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

RECENT STATEMENTS ISSUED BY THE GASB - The following statements were adopted by the Department during the fiscal year ended June 30, 2006:

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* - this statement requires the Department to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly.

- Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34) - this statement provides guidance clarifying the meaning of the phrase "legally enforceable" as it applies restrictions imposed on net asset use by enabling legislation.

- Statement No. 47, *Accounting for Termination Benefits* - this statement provides standards for the measurement, recognition and display of voluntary termination benefit expenditures, assets, and liabilities, including applicable note disclosures.

These statements did not have a significant effect on the operations of the Department, and are not expected to in future years.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2007, the Department is required to participate in this multiple employer cost sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia, 25305-0710 or http://www.wvpeia.com. No liability related to this plan exists for the Department at June 30, 2006. The impact on the Department's financial statements in subsequent years has not yet been determined, but such amount may be significant.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2006
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - The Department displays net assets in the following three components, if applicable:

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.

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 Board of Treasury Investments (BTI) and cash on hand. The composition of cash and cash equivalents were as follows at June 30:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 27,988	$ 27,988
Cash on deposit with State Treasurer invested in BTI cash liquidity pool	100,220	100,220
Cash in transit	473	473
Cash on hand	3,836	3,836
	$ 132,517	$ 132,517

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

(amounts expressed in thousands)

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

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the Authority may invest in three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

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

	Credit Rating *			
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 943,057	54.14%
Corporate bonds and notes	Aaa	AAA	61,992	3.56
	Aa	AA	55,063	3.16
	Aa	A	12,000	0.69
			129,055	7.41
U.S. agency bonds	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	306,279	17.58
Certificates of deposit	P1	A-1	99,000	5.68
	NR	NR	23,800	1.37
			122,800	7.05
U.S. agency discount notes	P1	A-1	93,851	5.39
Money market funds	Aaa	AAA	758	0.04
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	73,000	4.19
U.S. agency notes	Aaa	AAA	29,339	1.69
			102,339	5.88
			$ 1,741,802	100.00%

* NR = Not Rated

The Department's ownership represents 5.75% of these amounts held by BTI.

(amounts expressed in thousands)

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

Interest Rate Risk

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

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

Security Type	Carrying Value	WAM (Days)
Repurchase agreements	$ 102,339	3
U.S. Treasury bills	306,279	32
Commercial paper	943,057	25
Certificates of deposit	122,800	105
U.S. agency discount notes	93,851	89
Corporate notes	129,055	77
U.S. agency bonds/notes	43,663	208
Money market fund	758	1
	$ 1,741,802	42

Other Investment Risks

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

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

Discretely Presented Component Units:

State Rail Authority - The State Rail Authority maintains deposits with the STO that are pooled funds managed by the BTI. These funds are subject to the BTI cash liquidity pool policies and procedures above. The State Rail Authority ownership represents .08% of these amounts held by the BTI. The carrying amount of these deposits do not differ materially from the bank balance at June 30.

(amounts expressed in thousands)

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

Investments for Debt Service Repayment

The 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 following summarizes the policies and procedures for these funds.

Credit Risk

The West Virginia State Rail Authority limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the bond trust indenture that investments be rated AA or higher. At June 30, 2006 these funds were invested with J.P. Morgan Investment Management Inc. in the JPMorgan 100% U.S. Treasury Securities Money Market Fund. This Fund invests only in obligations of the U.S. Treasury, including Treasury bills, bonds, and notes. The Fund does not buy securities issued or guaranteed by agencies of the U.S. government. The following table provides information on the credit ratings of this investment.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. Government securities money market mutual fund	Aaa	AAAm-G	$572	100%

Concentration of credit risk

The State Rail Authority bond trust indenture places no limit on the amount the Authority may invest in any one issuer. All of the investments for debt service repayment are in the JPMorgan 100% U.S. Treasury Securities Money Market Fund.

Custodial credit risk

Custodial credit risk is the risk that in the event of a failure of the counter party, the State Rail Authority will not be able to recover the value of the investment that is in the possession of an outside party. The State Rail Authority does not have a policy for custodial credit risk. As of June 30, 2006, $572 of the State Rail Authority's investment was invested in obligations of the U.S. Treasury.

Interest rate risk

The weighted average maturity of the JPMorgan 100% U.S. Treasury Securities Money Market Fund generally will be 90 days or less and the Fund will buy only those instruments that have remaining maturities of 397 days or less. The following table provides the investment maturity in years for the funds invested for debt service repayment.

		Investment Maturity in Years			
Security Type	Carrying Value	Less than 1	1-5	6-10	More than 10
U.S. Government securities money market mutual fund	$572	$572	-	-	-

Foreign Currency Risk

The investments for debt service repayment have no securities that are subject to foreign currency risk.

(amounts expressed in thousands)

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

Parkways - Parkways has adopted investment guidelines that are consistent with those specified in the bond trust indentures for its outstanding bonds. Those guidelines authorize Parkways to invest all bond proceeds and other revenues in obligations of the United States and certain of its agencies, certificates of deposit, direct and general obligations of states, repurchase agreements relating to certain securities, and guaranteed investment contracts. Investments are managed by the financial institution servicing as the trustee for Parkways.

Interest Rate Risk - Investments

As of June 30, 2006, Parkways had the following investments and maturities:

Investment Type	Fair Value	Less than 1	1-5	6-10	10+
Mutual bond funds	$ 7,709	$ 7,518	$ 191	$ -	$ -
U.S. Treasury Obligations	98	98	-	-	-
Government agency bonds	25,148	8,855	13,124	2,520	649
State government bonds	669	100	381	188	-
Corporate bonds	3,973	364	2,511	72	1,026
Repurchase agreements	6,031	6,031	-	-	-
	$ 43,628	$ 22,966	$ 16,207	$ 2,780	$ 1,675

Concentration of Credit Risk - Investments

As of June 30, 2006, Parkways had investment balances with the following issuers which were greater than or equal to 5% of the total investment balance:

Type	Issuer	Percentage of Investments
Mutual bond funds	Federated Government Obligations Fund	14%
Government agency bonds	Federal Home Loan Bank	25%
	Federal Home Loan Mortgage Corp.	8%
	Federal National Mortgage Association	5%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were $1,293 at June 30, 2006. These deposits, which had a bank balance of $1,783, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in Parkways' name by its agent.

Credit Risk - Investments

The following table provides information on the credit ratings of Parkways' investments:

Security Type	Fitch	Moody's	S&P	Fair Value
Mutual bond funds	AAA	Aaa	AAAm	$ 7,709
Government agency bonds	AAA	Aaa	AAA	25,148
State government bonds	AAA	Aaa	AAA	669
Corporate bonds	AAA	Aaa	AAA	3,973
				$ 37,499

(amounts expressed in thousands)

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

Unrated securities included U.S. Treasury obligations of $98 and a repurchase agreement of $6,031. Acceptable collateral for the repurchase agreements include United States Treasury and government agency securities equal to 105% of the carrying value, all of which carry the highest credit rating.

Credit risk is managed by limiting investments to the following types of debt securities in accordance with Parkways' investment guidelines: direct obligations of or obligations guaranteed by the United States of America, the State of West Virginia or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, and corporate indebtedness meeting certain requirements.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Parkways will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006, Parkways held no securities that were subject to custodial credit risk.

Foreign Currency Credit Risk - All Investments

There are no securities that are subject to foreign currency risk.

A reconciliation of the investments disclosed in this Note to the amounts reported in the Statement of Net Assets is as follows:

As disclosed in this Note:	
Total deposits	$ 1,293
Total other investments	43,628
	$ 44,921
As reported on the Statement of Net Assets:	
Cash and cash equivalents	$ 7,324
Short-term investments	16,935
Investments in securities maturing beyond one year	20,662
	$ 44,921

(amounts expressed in thousands)

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

The cost of investment securities and related accrued interest receivable is allocated at June 30, 2006, among the following restricted accounts created under the various Trust Indentures or by the adoption of Authority resolution:

	2006
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1989, 1993, 2002, and 2003 Reserves	$ 10,922
Series 1989 and 1993 Debt Service	644
Renewal and Replacement	4,331
Operating and Maintenance	3,990
Series 2001 Debt Service	111
Series 2002 Debt Service	645
Series 2003 Debt Service	441
Insurance Liability	1,000
Economic Development and Tourism	4,332
	26,416
Reserve Revenue, restricted by Tri-Party Agreement	15,763
Facility Improvement	636
Highway/Bridge Contingency, restricted by Tri-Party Agreement	1,000
Unredeemed coupons	228
Total restricted and designated assets	$ 44,043

The assets restricted by the 1989, 1993, 2002, and 2003 Trust Indentures must be used for construction, turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1989, 1993, 2002, and 2003 Reserve Account equal maximum annual debt service for all bonds. The balance in the 1989, 1993, 2002, and 2003 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 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 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 a 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's discretion for costs of highway and/or bridge projects in emergency situations.

(amounts expressed in thousands)

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

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.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 consisted of the following:

	Primary Government	Component Units
Federal aid billed and not paid	$ 39,268	$ -
Federal aid earned but not billed	42,663	-
Total federal aid receivable	81,931	-
Other receivables	11,725	1,547
Combined total receivables	93,656	1,547
Less: allowance for uncollectibles	(780)	(50)
Net accounts receivable	$ 92,876	$ 1,497

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, 2006 consisted of the following:

Automobile privilege taxes	$ 36,356
Motor fuel excise taxes	34,714
Registration fees	3,169
	74,239
Less: Long-term portion	(5,973)
Current taxes receivable	$ 68,266

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end $5,973 is not expected to be collected within one year and is classified as a long term receivable.

(amounts expressed in thousands)

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

Amounts due from other State of West Virginia agencies at June 30, 2006 consisted of the following:

	Primary Government	Component Units
The Department of Administration	$ 195	$ -
Other Agencies	101	844
	$ 296	$ 844

Amounts due to other State of West Virginia agencies at June 30, 2006 consisted of the following:

	Primary Government	Component Units
Public Employees Insurance Agency	$ 1,223	$ -
Public Employees Retirement	1,026	-
The Department of Administration	39	-
Other Agencies	159	12
	$ 2,447	$ 12

NOTE 6 - INVENTORIES

Inventories at June 30, 2006 consisted of the following:

	Primary Government	Component Units
Materials and supplies	$ 23,659	$ 2,429
Equipment repair parts	9,312	-
Gas and lubrication supplies	2,543	-
	$ 35,514	$ 2,429

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2006
(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS

Governmental Activities:

Capital asset activity for Governmental Activities for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land - non infrastructure	$ 15,610	$ 546	$ 455	$ 15,701
Land - infrastructure	771,447	35,428	-	806,875
Building - construction in progress	4,936	4,388	8,054	1,270
Land Improvements-construction in progress	288	803	654	437
Construction-in-progress - roads	672,701	286,242	159,659	799,284
Construction-in-progress - bridges	280,014	232,816	123,808	389,022
Total capital assets not being depreciated	1,744,996	560,223	292,630	2,012,589
Capital assets being depreciated:				
Buildings	91,034	7,637	110	98,561
Furniture and fixtures	8,680	129	106	8,703
Land improvements - non infrastructure	5,442	1,038	-	6,480
Rolling stock	182,306	24,496	7,265	199,537
Shop equipment	3,040	-	-	3,040
Scientific equipment	2,224	116	32	2,308
Infrastructure - roads	6,488,317	135,906	-	6,624,223
Infrastructure - bridges	1,426,753	91,963	-	1,518,716
Total capital assets being depreciated	8,207,796	261,285	7,513	8,461,568
Less accumulated depreciation:				
Buildings and improvements	29,481	2,547	104	31,924
Furniture and fixtures	8,082	211	101	8,192
Land improvements - non infrastructure	1,725	272	-	1,997
Rolling stock	129,778	15,814	6,958	138,634
Shop equipment	2,931	23	-	2,954
Scientific equipment	1,611	88	27	1,672
Infrastructure - roads	2,821,829	219,299	-	3,041,128
Infrastructure - bridges	263,872	29,989	-	293,861
Total accumulated depreciation	3,259,309	268,243	7,190	3,520,362
Total capital assets being depreciated, net	4,948,487	(6,958)	323	4,941,206
Governmental activities capital assets, net	$ 6,693,483	$ 553,265	$ 292,953	$ 6,953,795

Current year depreciation totaling $265,213 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining $3,030 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, 2006
(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

Asset Type	Depreciation
Buildings and improvements	$ 2,547
Furniture and fixtures	211
Land improvements	272
Total unallocated	3,030
Rolling stock	15,814
Shop equipment	23
Scientific equipment	88
Total road maintenance	15,925
Infrastructure - roads	219,299
Infrastructure - bridges	29,989
Total other road operations	249,288
Total depreciation expense	$ 268,243

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land - infrastructure	$ 53,247	$ -	$ -	$ 53,247
Land - non infrastructure	4,836	-	-	4,836
Total capital assets not being depreciated	58,083	-	-	58,083
Capital assets being depreciated:				
Buildings	95,834	15	-	95,849
Furniture and fixtures	451	-	-	451
Rolling stock	8,365	2,416	1,706	9,075
Infrastructure - toll road	768,956	13,071	1,241	780,786
Infrastructure - rail property	39,329	1,887	293	40,923
Total capital assets being depreciated	912,935	17,389	3,240	927,084
Less accumulated depreciation:				
Buildings and improvements	38,755	3,280	-	42,035
Furniture and fixtures	290	12	-	302
Rolling stock	5,593	384	1,704	4,273
Infrastructure -toll road	334,702	26,301	-	361,003
Infrastructure - rail property	10,382	1,149	87	11,444
Total accumulated depreciation	389,722	31,126	1,791	419,057
Total capital assets being depreciated, net	523,213	(13,737)	1,449	508,027
Governmental activities capital assets, net	$ 581,296	$ (13,737)	$ 1,449	$ 566,110

Current year depreciation totaled $31,126.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2006
(amounts expressed in thousands)

NOTE 8 - RETAINAGES PAYABLE

The Department has entered into an arrangement with the West Virginia Board of Treasury Investments 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, 2006, retainages payable on contracts had been reduced to these amounts on deposit in such accounts by approximately $1,107.

NOTE 9 - LONG-TERM OBLIGATIONS

Governmental Activities:

Long-term obligations at June 30, 2006, 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:							
Better highway bonds	1973	5.625%-6.10%	02/01/2006	$ 1,480	$ -	$ 1,480	$ -
Safe road bonds	1998	4.30%-5.25%	06/01/2023	63,935	-	7,180	56,755
Safe road bonds	1999	4.30%-5.75%	06/01/2017	8,550	-	1,990	6,560
Safe road bonds	2001	3.50%-5.50%	06/01/2013	76,390	-	9,270	67,120
Safe road bonds	2006	3.00%-5.00%	06/01/2025	317,560	-	-	317,560
Total general obligation bonds				467,915	-	19,920	447,995
Bond premium				32,086	-	2,072	30,014
Total general obligation bonds payable net of premium				500,001	-	21,992	478,009
Claims and judgments				6,197	3,401	404	9,194
Compensated absences				82,927	3,232	4,909	81,250
Total long-term obligations				$ 589,125	$ 6,633	$ 27,305	$ 568,453

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 State Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding above.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2006
(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Debt service expenditures for debt service funds included interest of $23,098 for the year ended June 30, 2006. 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:

	2007	2008	2009	2010	2011	2012-2016	2017-2021	2022-2025	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	$ 40,380	$ 49,993	$ 49,996	$ 49,995	$ 49,993	$ 199,549	$ 117,577	$ 94,062	$ 651,545
Total general obligation bonds	40,380	49,993	49,996	49,995	49,993	199,549	117,577	94,062	651,545
Less: interest	22,230	21,338	19,911	18,405	16,828	61,128	33,142	10,568	203,550
Total principal	18,150	28,655	30,085	31,590	33,165	138,421	84,435	83,494	447,995
Bond premium	2,002	1,941	1,886	1,633	1,586	7,521	7,469	5,976	30,014
Total principal and bond premium	$ 20,152	$ 30,596	$ 31,971	$ 33,223	$ 34,751	$ 145,942	$ 91,904	$ 89,470	$ 478,009

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	$ 20,651	$ 144	$ 20,152	$ 40,947
Long-term liability	60,599	9,050	457,857	527,506
	$ 81,250	$ 9,194	$ 478,009	$ 568,453

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. The last bonds from this issue were repaid during the year ended June 30, 2006. 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 know as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of $220,000 were issued during July 1998; $110,000 were issued during July 1999; $110,000 were issued during July 2000; and an additional $110,000 were issued during July 2001.

In 2005, the State refinanced part of the above mentioned bonds in the amount of $321,405. These bonds will be repaid from revenues of the State Road Fund through the year 2025.

(amounts expressed in thousands)

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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

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

	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2004
Estimated claims liability, July 1	$ 6,197	$ 8,700	$ 6,961
Additions for claims incurred during the year	3,094	1,200	3,346
Changes in estimates for claims of prior periods	300	(3,287)	(845)
Payments on claims	(397)	(416)	(762)
Estimated claims liability, June 30	$ 9,194	$ 6,197	$ 8,700

At June 30, 2006, approximately $20,847 of tort claims and $6,775 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 $9,194, 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 $144. During the normal course of operations, the Department may become subject to other litigation. 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 are 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 $7,614 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. Expenditures during the year ended June 30, 2006 for health care premiums for 490 retirees were approximately $1,794.

(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units:

State Rail Authority - Long-term debt of the State Rail Authority consisted of notes payable to the County Commissions of Hardy County and Hampshire County, West Virginia amounting to $425 as of June 30, 2006. 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, 2006, and changes for the fiscal year then ended are as follows:

Notes payable at June 30, 2005	$ 1,223
Less principal retirements	(370)
Less amortization of premium	(16)
Notes payable at June 30, 2006	837
Less current portion	(412)
	$ 425

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:

Year ending June 30	Principal	Interest	Total
2007	395	60	455
2008	425	32	457
	820	92	912
Premium	17	-	17
Amortization of premium	-	(17)	(17)
	$ 837	$ 75	$ 912

Parkways - Long-term debt obligations of Parkways consisted of the following at June 30, 2006:

Revenue bonds payable	$ 96,448
Capital leases	1,445
	$ 97,893

Capital Leases - Parkways entered into four capital leases during the fiscal year 2006 - the equipment has a carrying value of $1,533 at June 30, 2006. Future minimum lease payments are as follows for the years ending June 30:

2007	$ 571
2008	571
2009	514
2010	310
2011	136
	2,102
Less amount representing interest	(157)
Less current portion	(500)
	$ 1,445

(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds - Revenue bonds payable consisted of the following at June 30, 2006:

Series 1993 Premium Capital Appreciation Bonds, issued March 1993, $981 at 23%, due in varying installments totaling $14,417, including accumulated appreciation (see below), from May 2003 through May 2007	$ 174
Series 2001A Taxable Serial Bonds, issued $5,695 in December 2001 at 4.75% to 7.00%, due in varying installments from June 2002 through June 2011	3,340
Series 2001B 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	905
Series 2001B term bonds, $2,090 at 5.00%, due June 2013	2,090
Series 2001B term bonds, $2,305 at 5.125%, due June 2015	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	34,885
Series 2003 Variable Rate Demand Revenue Refunding Bonds, $63,900 at variable rates, due in varying installments through May 2019	63,300
Total revenue bonds payable	106,999
Add:	
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	5,396
Less:	
Unamortized deferred loss on advance refunding	(11,230)
Unamortized discount and issuance costs	(1,478)
Current portion of revenue bonds payable	(3,239)
	$ 96,448

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 $89 in 2006. 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.

The outstanding 1993 Revenue Refunding Bonds were comprised of premium capital appreciation bonds as of June 30, 2006.

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.

The Revenue Bonds under the 1993, 2002 and 2003 Trust Indentures are secured by a pledge of substantially all Parkways operating revenues and all monies deposited into accounts created by the Trust Indentures.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

In 2002, $5,695 of Raleigh County, West Virginia, Taxable Commercial Development Revenue Refunding Bonds, Series 2001A and $5,900 of Commercial Development Revenue Bonds, Series 2001B (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, of which $3,710 remains outstanding but is considered defeased and accordingly has been removed from Parkways' financial statements. 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 $60 in 2006. The Series 2001B Bonds were issued to construct and furnish an expansion of the Caperton Center. The Series 2001 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 Caperton Center; (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 2001 Bonds. Parkways completed the advance refunding to remove certain restrictive indenture requirements of the Series 1994 and Series 1996 bonds. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of $583.

Additionally in 2002, $44,205 of Revenue Refunding Bonds were issued for the express purpose of defeasing $36,036 of Series 1993 Bonds. The advance refunding resulted in a $6,313 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 $270 in 2006. 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.

In 2003, Parkways issued $63,900 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding $61,280 of Parkways' Series 1993 Bonds. This refunding resulted in a $7,896 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 $569 in 2006. Parkways completed the refunding to reduce its aggregate debt service payment by $7,270 over a 17-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 $4,851.

The Series 2003 bonds bear interest at the Weekly Interest Rate determined by the remarketing agent on Tuesday of each week. Parkways has entered into an interest rate swap agreement on the Series 2003 bonds as follows:

Objective of the Interest Rate Swap

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, Parkways entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change Parkways' variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Terms of the Interest Rate Swap

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of $63,900 matches the $63,900 variable rate bonds, Series 2003. The swap was entered at the same time the bonds were issued (February 14, 2003).

Under the swap, Parkways pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67 percent of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on The Bond Market Association Municipal Swap Index (BMA).

Fair Value

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of $2,328 as of June 30, 2006. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because Parkways' bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk

As of June 30, 2006, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standards & Poor's and Aa by Moody's Investor's Service as of June 30, 2006.

Basis Risk

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2006. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2006, the BMA rate was 3.67 percent, whereas 67 percent of the LIBOR was 3.81 percent.

Termination Risk

Parkways or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, Parkways would be liable to the counterparty for a payment equal to the swap's fair value.

(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Swap Payments and Associated Debt

Using rates as of June 30, 2006, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net	Total
2007	$ 300	$ 561	$ 2,375	$ 3,236
2008	3,900	670	2,234	6,804
2009	4,300	668	2,060	7,028
2010	4,300	665	1,865	6,830
2011	4,700	624	1,705	7,029
2012-2016	26,600	2,407	5,836	34,843
2017-2019	19,200	999	770	20,969
	$ 63,300	$ 6,594	$ 16,845	$ 86,739

The following schedule summarizes the revenue bonds outstanding as of June 30, 2006:

2006	Beginning Balance	Additions	Retired	Amortization	Ending Balance	Due Within One Year
Series 1993	$ 7,125	$ -	$ (3,820)	$ 339	$ 3,644	$ 174
Series 2001	9,009	-	(710)	60	8,359	750
Series 2002	33,141	-	(1,920)	270	31,491	2,015
Series 2003	55,823	-	(200)	570	56,193	300
	$ 105,098	$ -	$ (6,650)	$ 1,239	$ 99,687	$ 3,239

Debt service requirements for the Revenue Bonds subsequent to June 30, 2006, are as follows:

Year Ending June 30	Principal Maturities	Interest, Including Accretion	Total
2007	$ 3,239	$ 8,876	$ 12,115
2008	6,680	5,059	11,739
2009	7,330	4,736	12,066
2010	7,405	4,375	11,780
2011	8,090	4,006	12,096
2012-2016	44,855	13,760	58,615
2017-2020	29,400	2,859	32,259
	106,999	$ 43,671	$ 150,670
Add:			
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	5,396		
Less:			
Unamortized deferred loss on advance refunding	11,230		
Unamortized discount and issuance costs	1,478		
	$ 99,687		

(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

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 the Bonds to maintain their tax-exempt status. At June 30, 2006, Parkways' estimated arbitrage rebate liability was zero.

Compensated Absences - Following is a summary of the liability for compensated absences for the year ended June 30, 2006:

	Balance June 30, 2005	Payments	Increases	Balance June 30, 2006	Due Within One Year
Termination payments related to sick leave	$ 3,044	$ (108)	$ 23	$ 2,959	$ 296

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

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

- The 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, 2006, for rental payments of approximately $2.0 million annually. Management expects the leases to be renewed upon expiration.

- The Department's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2006, the Department incurred payroll related expenditures of approximately $34,821 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $18,130 in employer matching contributions to the State Public Retirement System.

- The Department was insured under the West Virginia Workers' Compensation Division until January 1, 2006. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process. During the year ended June 30, 2006 the Division paid approximately $4,796 to West Virginia Workers' Compensation Division for coverage through December 31, 2005, and approximately $5,590 to BrickStreet Insurance Company for coverage from January 1 through June 30, 2006.

- The Department made payments 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 $5,481 during the year ended June 30, 2006.

- The Department made payments to the Public Service Commission for weight enforcement duties. These expenditures, which were authorized by the Legislature, amounted to approximately $4,075 during the year ended June 30, 2006.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Department with various contractors approximated $652,552 at June 30, 2006. In addition, Parkways had contractual commitments totaling $12,728 for various Turnpike System improvement projects.

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.

NOTE 12 - 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.

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Department's contribution of 10.5%, 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, 2006, 2005 and 2004 were $18,130, $19,025 and $19,309 respectively, equal to the required contributions for each year.

NOTE 13 - 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) and the Public Employees Insurance Agency (PEIA), to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The WCC, now BrickStreet 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 9, 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 9.

NOTE 13 - RISK MANAGEMENT (Continued)

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

NOTE 14 - SUBSEQUENT EVENTS

The Department is expected to issue revenue bonds in the amount of $78 million in October 2006. It is anticipated that another estimated $95 million will be issued during January 2007. These bonds will be revenue bonds and the debt service payments will be funded through federal aid revenue.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	$ 17,357	$ 914	$ 2,206	$ -	$ 20,477
Receivables	500	703	118	1	1,322
Inventories	922	-	-	-	922
Other assets	161	-	-	-	161
Total assets	$ 18,940	$ 1,617	$ 2,324	$ 1	$ 22,882
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 572	$ 681	$ 4	$ -	$ 1,257
Accrued payroll and related liabilities	109	23	9	5	146
Due to other funds/agencies	3,484	-	-	1	3,485
Due to other states	3,141	-	-	-	3,141
Deferred revenue	355	-	-	-	355
Total liabilities	7,661	704	13	6	8,384
Fund balances					
Reserved for inventories	922	-	-	-	922
Unreserved, undesignated	10,357	913	2,311	(5)	13,576
Total fund balances	11,279	913	2,311	(5)	14,498
Total liabilities and fund balances	$ 18,940	$ 1,617	$ 2,324	$ 1	$ 22,882

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
Revenues					
Taxes					
Aviation fuel	$ -	$ -	$ 692	$ -	$ 692
License, fees and permits					
Motor vehicle registrations and licenses	5,147	-	-	-	5,147
Federal aid	7,460	10,684	-	-	18,144
Payments from primary government	-	1,900	1,496	508	3,904
Miscellaneous revenues	-	385	76	-	461
	12,607	12,969	2,264	508	28,348
Expenditures					
Current					
Support and administrative operations	11,444	13,069	1,450	638	26,601
	11,444	13,069	1,450	638	26,601
Excess (deficiency) of revenues over expenditures	1,163	(100)	814	(130)	1,747
Fund balances, beginning of year	10,116	1,013	1,497	125	12,751
Fund balances, end of year	$ 11,279	$ 913	$ 2,311	$ (5)	$ 14,498

COMPLIANCE AND INTERNAL CONTROL REPORTS

Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

Business Advisors and Consultants

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

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

We have audited the 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, 2006, which collectively comprise the West Virginia Department of Transportation's basic financial statements and have issued our report thereon dated November 6, 2006, 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, a discretely presented component unit. Those statements were audited by other auditors whose report thereon has 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 internal control over financial reporting and compliance and other matters, insofar as it relates to internal control over financial reporting and compliance and other matters for Parkways, Economic Development and Tourism Authority is based solely on the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the West Virginia Department of Transportation financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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. Reportable conditions are described in the accompanying schedule of findings as items 2006-1 through 2006-5.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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 above is a material weakness.

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<u>Compliance and Other Matters</u>

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2006-2 through 2006-5.

We noted certain matters that we reported to management of the West Virginia Department of Transportation in separate letters dated November 6, 2006.

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

Suttle & Stalnaker, PLLC

November 6, 2006

Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

Business Advisors and Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

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, 2006. 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.

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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2006-9 through 2006-12.

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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 2006-6 through 2006-12.

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.

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

Suttle & Stalnaker, PLLC

November 6, 2006

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Division	CFDA Number	Expenditures
U.S. Department of Agriculture			
Cooperative Forestry Assistance	DOH	10.664	$ 30,492
Schools and Roads - Grants to States	DOH	10.665	299,908
Total U.S. Department of Agriculture			330,400
U.S. Department of Interior			
Sport fishing and Boating Safety Act	PA	15.622	100,000
Total U.S. Department of Interior			100,000
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	323,250,136
Appalachian Development Highway System	DOH	23.003	99,677,249
Recreational Trails Funding Program	DOH	20.219	369,648
Federal Transit Capital Improvement Grant	PT	20.500	4,702,815
Federal Transit Technical Studies Grant	PT	20.505	287,407
Public Transportation for Nonurbanized Areas	PT	20.509	4,338,664
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	754,975
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	6,111,215
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	9,044
Federal Highway Safety Data Improvement Incentive Grants	DMV	20.603	156,541
Safety Inventive Grants for Use of Seatbelts	DMV	20.604	353,464
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			440,011,158
U.S. Department of Homeland Security			
Passed-through State of West Virginia Department of Military Affairs and Public Safety			
Public Assistance Grants	DOH	97.036	5,603,970
Total U.S. Department of Homeland Security			5,603,970
Total Federal Expenditures			$ 446,045,528

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, 2006

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, 2006. 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:

Program Title	Federal CFDA No.	Amount Provided to (Refunded from) Subrecipients
Highway Planning and Construction	20.205	$ 8,048,974
Federal Transit Capital Grants	20.500	4,430
Federal Transit Technical Studies Grant	20.505	228,204
Public Transportation for Nonurbanized Areas	20.509	2,948,103
Public Transportation for Elderly and Disabled	20.513	5,581
State & Community Highway Safety	20.600	1,355,573
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	(43,191)
Federal Highway Safety Data Improvements Incentive Grants	20.603	115,910
Safety Incentive Grants for Use of Seatbelts	20.604	180,170
		$ 12,843,754

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, 2006

Program	Findings/Noncompliance	Questioned Cost
2002-10/2003-8/2004-9/2005-9 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Independent Engineer's Cost Estimate - For two (Project numbers S245-3-9.37(03); U317-50-18.0300) out of the 20 proposals which required independent engineer's cost estimates to be performed during the fiscal year ended June 30, 2005, the estimate was not prepared by the Department until after the consultant's price proposal was received. (Noted in the prior year) Current Year Status - Resolved	N/A
2002-11/2003-9/2004-10/2005-10 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Procurement of Architectural and Engineering Services - We noted the following during our review of documentation related to the procurement of architectural and engineering services: • For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Noted in prior year) Specifically, we noted this in the following files: S345-3-9.3702, S306-10-4.9900, T627-35-17.9400, S350-44-5.6200, X354-D-4.7302, T637-807-0.0400, Statewide Agreement, U352-2-11.6500, U320-64-49.7304, U212-220-10.64 00, S312-8-0.0100, S245-3-9.37(03), S330-49-1.67(00), GO42-HDQ/ES-1.00(00), and U317-50-18.0300. Current Year Status - Partially Resolved Management Response - *The West Virginia Division of Highways in conjunction with the Federal Highway Administration has revised Procurement Procedures for Engineering Services. These revisions strengthened our processes and procedures, and are based on the Brooks Act. These procedures provide evaluation factors for preparing the short list. These revisions provide documentation as to how a consultant is selected and provides documentation on interviews that are conducted prior to the final selection being made. The Division of Highways feels the new procedures will address the various issues that auditors have reported.*	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2002-9/2003-7/2004-8/2005-8 CFDA# 20.205/23.003/97.036/20.600/20.601/20.603/20.604/20.500/20.509 Highway Planning and Construction Cluster, Public Assistance Grants, Highway Safety Cluster, Federal Transit Capital Grants, and Public Transportation for Nonurbanized Areas.	<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: • Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Department did have a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Department's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Department. By completing this review, the Department will have increased assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Department. (Also noted in prior year) • Programmers in the Department's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Department's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Also, noted in the prior year) • The Department of Motor Vehicles (DMV) Cash Register System stores user account passwords in clear unencrypted text. Storing passwords in clear, unencrypted text increases the risk that a user account's password could be compromised by another user. (Also, noted in the prior year) <u>Current Year Status</u> - Partially Resolved	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2002-9/2003-7/2004-8/2005-8 (Continued)	Management Response - *We recognize and agree with the need for a vulnerability assessment of the internal network. Since last year's audit, we have implemented Enterasys Policy Manager on the DOT computer network. Installation of this product, while not a vulnerability assessment, does provide us with greater control of user access through the implementation of "access policies".* *Concerning a vulnerability assessment, we planned to consult with the Office of Technology about using the statewide contract for this service, determine the costs and present a proposal to the DOT Business Manager for review and approval consideration. However, the State Chief Technology Officer's (CTO) plans to consolidate all state agency networks and support personnel into one agency, Office of Technology, have moved forward. After consolidation, DOT would not be responsible for network operations including vulnerability assessments, intrusion detection and the policies and procedures for these functions. Negotiations continue with the Office of Technology for an agreeable Memorandum of Understanding. The MOU may be signed by 1/1/2007.* *The CTO presented a draft Memorandum of Understanding (MOU) for consolidation to the Secretary of Transportation in August 2006 (see attached). The MOU specifies the scope of information security services that will be provided in section 2.2.1. Upon receipt of the MOU, negotiations ensued and once signed; the CTO's plans will be implemented. Once the network is consolidated, DOT will assist the CTO to ensure a secure network is provided.* *As stated in prior years, we do not consider the wireless networks referenced to be vulnerable. Wireless use within the DOT network is restricted to only one wireless bridge connecting two point-to-point accesses. These wireless accesses are controlled by MAC addresses only. The DOT network offers no wireless access points or hot spot connections that a hacker could exploit. Again, we will work with the CTO to confirm and ensure that this connection remains secure.* *We continue to disagree as to the need to do a code review of all online/ecommerce applications. We still have only one minor e-commerce application (NASCAR plates). This application was rewritten after the previous problem and there have been no known problems since then. Before investing in a code review by the statewide contract vendor, we would strongly consider abandoning this application. Last year there were only 29 transactions. Therefore, we would not be able to justify the expense of a code review service for a system with so few transactions generating so little revenue.*	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2002-9/2003-7/2004-8/2005-8 (Continued)	*As stated before, Change Management Control is the issue here with the fundamental control being separation of duties that would require splitting our staff and responsibilities into development groups and production groups. We acknowledge this in principle, but maintain that we have an insufficient number of personnel to support this level of work separation.* *We maintain control through supervisor monitoring and end product review prior to implementation. Also, we solicit review and approval by the manager responsible for the specific system for significant programs and changes. Program revisions are only put into production by section supervisors after these review steps are satisfied. Regardless of the level of access afforded our programmers; they are unable to commit DOT funds.* *Previously, we agreed to review assigned duties and responsibilities of personnel to determine if functions can be further separated. Also, we agreed to document the processes and controls. We continue our efforts in this area.* *We have responded to this recommendation in the past stating that we revoke or remove user access of terminated employees as early as is reasonable. To address the need for immediate notification of all employee terminations, the Director of DOT Human Resources Division issued a memo on October 19, 2006. Since then, both contact persons of Information Services Division have received such notifications and removed the employee's network and systems access. Also, we will incorporate this requirement in the DOT Administrative Procedures. Additionally, employees from certain areas such as Human Resources, Information Services or Finance that have higher risk are certainly prioritized and monitored.* *Finally, we will identify and document user accounts needed within servers and disable or delete unnecessary accounts. The Division also puts added emphasis on employees that are terminated from areas such as Human Resources, Personnel or Finance.* *DMV's application vendor completed this revision and it is operating live at the Winfield Regional Office. The Director of DMV's Information Services was contacted on November 3, 2006 and he confirmed that these program changes required some adjustments, but they have been operating successfully for a week at the Winfield Regional Office. Statewide implementation of this revision is now planned for November 12, 2006.*	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2002-13/2003-10/2004-11/2005-11 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Evaluation of Consultant's Work - We noted the following during our review of the Department's evaluation of consultants' work: The March annual consultant evaluations could not be located for twelve out of twenty active projects reviewed. (Also noted in the prior year) The projects numbers were S345-3-9.3702,EA, T627-35-17.9400, EA, X354-D-4.7302, S.A., T637-807-0.0400, E.A., Statewide Agreement, U352-2-11.6500, E.A, U320-64-49.7304, E.A., S312-8-0.0100, S245-3-9.37(03), S33-49-1.67(00), U317-50-18.0300, GO42-HDQ/ES-1.00(00). Current Year Status - Partially Resolved Management Response - *The finding that consultant evaluations have not been completed as required in the procedures is being addressed. We believe the major issue is that the procedures need to be revised to allow a more appropriate number of evaluations which will then allow them to be more effectively used. Engineering Division has established an internal committee that is currently working on recommendations for these revised procedures. The committee will present their recommendations to WVDOT Management in January 2007. These recommendations will then be discussed with the Consulting Industry and FHWA before final implementation. The target date for completion is April 2007.*	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2004-13/2005-12 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Authorization of Overtime Pay - We reviewed overtime paid during the fiscal year ended June 30, 2005 and noted the following: • The Department does not have adequate policies and procedures for the administration of overtime. • The Department has not updated the existing policies and procedures and related payroll classifications regarding the new U.S. Department of Labor Standards. • Several employees had a significant amount of overtime during non-emergency situations. • Some employees in the period of retirement calculation appeared to have unusual amounts of overtime. Current Year Status - Partially Resolved. Management's Response - *The Division of Highways has existing policies for administrating overtime, though the Division is modifying those policies so a better monitoring function can be performed.* *The Division will be changing the method of overtime compensation for approximately 200-500 employees effective January 1, 2007. Again, the Division must maintain an efficient and safe highway system. Though we may be changing the method of compensation we did not eliminate compensation as that may not be in the best interest of the traveling public.* *As stated in the previous reply, the Division's first concern is the traveling public. Therefore, managerial decision was made about the overtime compensation and that decision was made to serve the traveling public and was not made to pay the minimum amount DOL requires.*	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2005-13 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Land - We noted several issues relating to land and leases, including the following: • There was not a comprehensive detail of land and land improvements, or a detail of additions and disposals for the year. • Appraisals were not always not prepared in a timely fashion. • Lease renewals were not always properly reviewed. • Leased property was sometimes occupied by the lessee prior to payment or to the execution of the lease agreement. • Property was leased for less than fair market value in a significant number of leases. • Property was sold at less than fair market value to entities that are not governmental entities. • Unreconciled differences existed in records maintained by the Commissioner compared to those maintained by Property Management. Current Year Status - Partially Resolved. Management's Response - *The Division is continuing the development of a computerized tracking system for property acquisitions. In the interim, Districts are now required to file quarterly reports to allow central office to track acquisitions, sales and leases.* *The Division's new procedure of requiring the first month's rental payment at the time of execution of the lease is working well and eliminates the lessee occupation of the property prior to rental payment.* *A diligent attempt is made to correctly file all documents. However, clerical errors do occur but are not indicative to a deficiency in the existing procedures.*	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2005-14 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	Non-Compliance with Authorized Funding Techniques - From discussions with Department staff, it was determined that the Department has not properly implemented the composite clearance funding technique for payroll costs for programs 20.205, *Highway Planning and Construction*, and 23.003, *Appalachian Development Highway System*. According to Department staff, personnel costs that are chargeable to the Federal programs are entered into Department's billing system as the time is worked. The Department's system then accumulates these costs, along with other direct costs, to determine the amount of Federal funds to be drawn. The funds are drawn such that they are deposited ten days from the request date. Since all personnel at Department are paid in arrears, this results in the Federal funds being deposited in the State's accounts up to twenty-four days in advance of the payroll disbursements clearing the State's accounts. Current Year Status - Partially Resolved. Management's Response - *The Division will continue to meet with the State Treasurer's staff in regards to CMIA issues. The Division has worked over a decade in establishing clearance patterns for reimbursable funding from FHWA, though we do understand this procedure is more complicated each year. The Division believes we are in compliance with the authorized funding technique.*	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006

Program	Findings/Noncompliance	Questioned Cost
2005-15 CFDA# 20.600/20.601/20.603/20.604 Highway Safety Cluster	Subrecipient Monitoring - Policies And Procedures - While reviewing the subrecipient monitoring process for the Highway Safety Program, we noted that they have developed some monitoring procedures for the monitoring of subrecipients; however, the procedures do not address the following aspects of the monitoring plan: • There are no policies or procedures in place to determine the frequency and which subrecipients are to be monitored. During the current year DMV did not maintain a monitoring log and performed very little on-site monitoring. Additionally, current procedures do not address areas such as frequency of monitoring reviews, follow-up on findings, and communication protocols with various departments. • There are no policies and procedures in place to address how issues identified during the monitoring are to be resolved. Current Year Status - Partially Resolved. Management's Response - *The Division in June 2006 formalized the monitoring plan which addresses the scope of programmatic and financial monitoring and the amount of on-site monitoring. The Division has been using these monitoring procedures for the last several years, except for the site visit form, but the procedures were not formalized.*	Unknown
2005-16 CFDA# 20.600/20.601/20.603/20.604 Highway Safety Cluster	Subrecipient Monitoring - Audit Reports - As of the completion of fieldwork, the Department did not have any of the required 2004 audits on file. Current Year Status - Resolved.	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? ____ yes __X__ no

Reportable condition(s) identified not considered to be material weaknesses? __X__ yes ____ none reported

Noncompliance material to financial statements noted? __X__ yes ____ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ____ yes __X__ no

Reportable condition(s) identified that are not considered to be material weaknesses? __X__ yes ____ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? __X__ yes ____ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Highway Planning and Construction Cluster
20.205	Highway Planning and Construction
23.003	Appalachian Development Highway System
20.500	Federal Transit Capital Improvement Grant
20.509	Public Transportation for Non Urbanized Areas
97.036	Public Assistance Grants
	Highway Safety Cluster
20.600	State and Community Highway Safety
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
20.603	Federal Highway Safety Data Improvements Incentive Grants
20.604	Safety Incentive Grants for Use of Seatbelts

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? __X__ yes ____ no

SECTION II

FINANCIAL STATEMENT

FINDINGS SECTION

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

2006-1 Information Systems Controls

See related finding at 2006-6.

2006-2 Procurement of Architectural and Engineering Services

See related finding at 2006-7.

2006-3 Evaluation of Consultant's Work

See related finding at 2006-8.

2006-4 Authorization of Overtime Pay

See related finding at 2006-9.

2006-5 Land

See related finding at 2006-10.

SECTION III

FEDERAL AWARD FINDINGS

AND QUESTIONED COSTS SECTION

2006-6 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
Public Transportation for Nonurbanized Areas	20.509
Highway Safety Cluster	
State & Community Highway Safety	20.600
Alcohol Traffic Safety	20.601
Federal Highway Safety Data Improvements Incentive Grants	20.603
Safety Incentive Grants for Use of Seatbelts	20.604
Federal Transit Capital Improvement Grants	20.500
U.S. Department of Homeland Security	
Public Assistance Grants	97.036

Criteria: The management of the Department is responsible for establishing and maintaining adequate information systems internal controls. Furthermore, an integral part of an entity's internal control structure is the effective segregation of duties, which involves assigning responsibilities for authorizing transactions, recording transactions and maintaining custody of assets to different individuals, thus reducing the risk of errors or fraud occurring and not being detected.

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:

- Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Department did have a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Department's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Department. By completing this review, the Department will have assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Department has not had a code review on all online/e-commerce applications utilized by the Department. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Department. (Partially noted in prior year)

- Programmers in the Department's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Also, partially noted in the prior year)

2006-6 Information Systems Controls (Continued)

- The Department's Information Services Department is not notified immediately upon the termination of employees. Lack of notification to the Information Services Department in a timely basis increases the risk of unauthorized access to the information systems and data. Furthermore, the Department maintains several user accounts which are not for specific employees of the Department.

- The Division of Motor Vehicles (DMV) Cash Register System stores user account passwords in clear unencrypted text. Storing passwords in clear, unencrypted text increases the risk that a user account's password could be compromised by another user. (Also, noted in the prior year)

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 may have not been monitored by the Department.

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

Recommendation: We recommend the following:

- The Department should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Department complete a code review on all online/e-commerce applications. Both of these reviews could be conducted under a statewide contract that is currently in place with IS&C. Furthermore, we recommend that the Department develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Department.

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

- The Department should establish policies and procedures to ensure that the Information Services Department is notified immediately of all employee terminations. The Department should also identify and document user accounts not utilized by employees but need within the servers, such as application and system accounts. User accounts deemed as unnecessary should be disabled or removed.

- The Department should contact the vendor of the DMV Cash Register System and request that passwords be encrypted.

2006-6 Information Systems Controls (Continued)

Management Response:

Agree. *We recognize and agree with the need for a vulnerability assessment of the internal network. Since last year's audit, we have implemented Enterasys Policy Manager on the DOT computer network. Installation of this product, while not a vulnerability assessment, does provide us with greater control of user access through the implementation of "access policies".*

Concerning a vulnerability assessment, we planned to consult with the Office of Technology about using the statewide contract for this service, determine the costs and present a proposal to the DOT Business Manager for review and approval consideration. However, the State Chief Technology Officer's (CTO) plans to consolidate all state agency networks and support personnel into one agency, Office of Technology, have moved forward. After consolidation, DOT would not be responsible for network operations including vulnerability assessments, intrusion detection and the policies and procedures for these functions. Negotiations continue with the Office of Technology for an agreeable Memorandum of Understanding. The MOU may be signed by 1/1/2007.

The CTO presented a draft Memorandum of Understanding (MOU) for consolidation to the Secretary of Transportation in August 2006 (see attached). The MOU specifies the scope of information security services that will be provided in section 2.2.1. Upon receipt of the MOU, negotiations ensued and once signed; the CTO's plans will be implemented. Once the network is consolidated, DOT will assist the CTO to ensure a secure network is provided.

As stated in prior years, we do not consider the wireless networks referenced to be vulnerable. Wireless use within the DOT network is restricted to only one wireless bridge connecting two point-to-point accesses. These wireless accesses are controlled by MAC addresses only. The DOT network offers no wireless access points or hot spot connections that a hacker could exploit. Again, we will work with the CTO to confirm and ensure that this connection remains secure.

We continue to disagree as to the need to do a code review of all online/ecommerce applications. We still have only one minor e-commerce application (NASCAR plates). This application was rewritten after the previous problem and there have been no known problems since then. Before investing in a code review by the statewide contract vendor, we would strongly consider abandoning this application. Last year there were only 29 transactions. Therefore, we would not be able to justify the expense of a code review service for a system with so few transactions generating so little revenue.

Agree*. As stated before, Change Management Control is the issue here with the fundamental control being separation of duties that would require splitting our staff and responsibilities into development groups and production groups. We acknowledge this in principle, but maintain that we have an insufficient number of personnel to support this level of work separation.*

2006-6 Information Systems Controls (Continued)

We maintain control through supervisor monitoring and end product review prior to implementation. Also, we solicit review and approval by the manager responsible for the specific system for significant programs and changes. Program revisions are only put into production by section supervisors after these review steps are satisfied. Regardless of the level of access afforded our programmers; they are unable to commit DOT funds.

Previously, we agreed to review assigned duties and responsibilities of personnel to determine if functions can be further separated. Also, we agreed to document the processes and controls. We continue our efforts in this area.

***Agree.** We have responded to this recommendation in the past stating that we revoke or remove user access of terminated employees as early as is reasonable. To address the need for immediate notification of all employee terminations, the Director of DOT Human Resources Division issued a memo on October 19, 2006. Since then, both contact persons of Information Services Division have received such notifications and removed the employee's network and systems access. Also, we will incorporate this requirement in the DOT Administrative Procedures. Additionally, employees from certain areas such as Human Resources, Information Services or Finance that have higher risk are certainly prioritized and monitored.*

Finally, we will identify and document user accounts needed within servers and disable or delete unnecessary accounts. The Division also puts added emphasis on employees that are terminated from areas such as Human Resources, Personnel or Finance.

***Agree.** DMV's application vendor completed this revision and it is operating live at the Winfield Regional Office. The Director of DMV's Information Services was contacted on November 3, 2006 and he confirmed that these program changes required some adjustments, but they have been operating successfully for a week at the Winfield Regional Office. Statewide implementation of this revision is now planned for November 12, 2006.*

2006-7 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." Section 157-1-7.3n of the Code of State Rules states in part that: "A written expression of interest made by the consultant indicating his desire to perform a particular project, task or service. This shall include, as a minimum, a current qualification questionnaire, location of where work would be performed, cost accounting information statement…" Section 157-1-7.16 states: "Record Keeping. Unless otherwise noted, all documentation under this procedure will be retained on file at the Department of Transportation and would be available for review by the FHWA." Section 154-1-7.4j states "The Selection Committee will review the short list and schedule interviews with each firm. Discussions will be held regarding anticipated concepts and proposed methods of approach to the assignment including those items noted in the qualification and technical analysis, provided that if interviews were conducted concerning qualifications and capabilities prior to or during the selection process, then the committee may in its discretion forego further interviews and discussions." Further section 154-1- 7.4.k states "After scheduled interviews with the short listed consultants, the highest qualified is selected. The remaining consultants will be ranked in order of preference for future use if negotiations fail with the highest rated consultant."

In addition, 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:

- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Noted in prior year) Specifically, we noted this problem in the following files: S304-40-0.80, S317-98-4.06, T640-64-43.80, T628-BLU/EF-6, T635-470-0.04, S320-77-103.43, S318-77-144, and S335-70-0.02.

Questioned Costs: N/A

2006-7	Procurement of Architectural and Engineering Services (Continued)
Context:	Total expenditures for architectural and engineering services were $46.3 million for the year ended June 30, 2006.
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 and/or seek clarification from the State of West Virginia Legislature regarding the applicable documentation and the related requirements of the West Virginia State Code. We are aware that the Department has developed revised procedures which they believe will address this issue.
Management Response:	***Agree:*** *The West Virginia Department of Transportation in conjunction with the Federal Highway Administration has revised Procurement Procedures for Engineering Services. These revisions strengthened our processes and procedures, and are based on the Brooks Act. These procedures provide evaluation factors for preparing the short list. These revisions provide documentation as to how a consultant is selected and provides documentation on interviews that are conducted prior to the final selection being made. The Department of Transportation feels the new procedures will address the various issues that auditors have reported.*

2006-8 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 states that: "Upon completion or performance termination of the consultant's work, the responsible Department 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. On contracts where the final product has been accepted by the Department but the final invoices have not been paid, the consultant will not need to be evaluated…"

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

We found 3 instances of 28 where no interim evaluations were located in file, but a final evaluation was located. The project numbers are S322-32-9.04, S352-250-8.66 00, and S344-9-3.71 00.

We also found 21 instances of 28 where no evaluations were located in the file. The project numbers are T620-P25-0.07, X354-D-0.00 02, U212-220-12.65, X341-125-0.01, S320-61-27.69 00, T615-30-0.17 00, X216-10/10-0.00, U234-19-11.72 02, X354-D-4.73 02, S330-65/5-1.47 00, S306-64-6.28 00, X354-D/2.18 04, S620-64/77-3, U316-220-8.50 00, S323-10-8.99 00, S339-72-1.85 00, X354-D-0.00 02, T631-79-149.39, U319-17-0.43, S320-61-13.10, and S314-127-1.40.

Questioned Costs: N/A

Context: Total expenditures for architectural and engineering services were $46.3 million for the year ended June 30, 2006.

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.

2006-8	Evaluation of Consultant's Work (Continued)
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.
Management Response:	***Agree:*** *The finding that consultant evaluations have not been completed as required in the procedures is being addressed. We believe the major issue is that the procedures need to be revised to allow a more appropriate number of evaluations which will then allow them to be more effectively used. Engineering Division has established an internal committee that is currently working on recommendations for these revised procedures. The committee will present their recommendations to WVDOH Management in January 2007. These recommendations will then be discussed with the Consulting Industry and FHWA before final implementation. The target date for completion is April 2007.*

2006-9 Authorization of Overtime Pay

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 responsible for establishing and maintaining adequate controls related to the approval and authorization of overtime pay for employees of the Department.

Condition: We reviewed overtime paid during the fiscal year ended June 30, 2006 and noted the following:

- The Department does not have adequate policies and procedures for the administration of overtime.
- The Department has not updated the existing policies and procedures and related payroll classifications regarding the new U.S. Department of Labor Standards.
- The Department may not be in full compliance with the provisions set forth by the Department of Labor (DOL) concerning the overtime increment pay.

Questioned Costs: Unknown

Context: On April 22, 2005, the Cabinet Secretary issued a memo stating that all non-emergency overtime would need approval from his office. Total overtime expense for fiscal year 2006, 2005 and 2004 was approximately $8,505,000, $14,002,000 and $15,366,000, respectively, a $5,496,000 and $1,364,000 reduction. For a six month period from January to June of each year, the totals were $4,792,000 for 2006, $6,814,000 for 2005 and $8,772,000 for 2004, a $2,022,000 and $1,958,000 reduction, respectively. However, the Department had not analyzed the decrease to determine how much of the decrease was due to the revised process and how much was due to factors such as fewer snow storms, floods, etc.

Cause: Adequate policies and procedures and internal controls may not exist for the approval of overtime compensation.

Effect: Amounts claimed as overtime compensation may be excessive for the tasks performed.

2006-9 Authorization of Overtime Pay (Continued)

Recommendation: We recommend that the Department continue to review and monitor their policies and procedures for approval and authorization for overtime pay to determine if changes are needed. Furthermore, we recommend that management continue to review overtime paid to determine the appropriateness of the amount charged and the effectiveness of the hours worked. In addition, we recommend that the Department work with the West Virginia Division of Personnel and review their policies and procedures for determining which employees are eligible for overtime and ensure policies and procedures are in compliance with the new Federal overtime laws and regulations. In addition, management should monitor overtime for individuals within the retirement window to ensure that compensation for retirement calculation purposes is not inappropriately inflated. Further, management should work to seek resolution of the overtime increment pay.

Management Response: ***Agree:*** *The Department of Transportation has existing policies for administrating overtime, though the Department is modifying those policies so a better monitoring function can be performed.*

Agree: *The Department will be changing the method of overtime compensation for approximately 200-500 employees effective January 1, 2007. Again, the Department must maintain an efficient and safe highway system. Though we may be changing the method of compensation we did not eliminate compensation as that may not be in the best interest of the traveling public.*

Agree: *As stated in the previous reply, the Department's first concern is the traveling public. Therefore, managerial decision was made about the overtime compensation and that decision was made to serve the traveling public and was not made to pay the minimum amount DOL requires.*

2006-10 Land and Leases

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 157-2-8 of the West Virginia Code sets forth various requirements regarding land and lease issues. West Virginia Code sections 17-2A-19, 5A-8-9, and 12-2-2 also address various criteria to be followed by the State regarding land and lease issues.

Condition: We noted several issues relating to land and leases, including the following:

- There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further although the Department has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances.
- Leased property was sometimes occupied by the lessee prior to payment or to the execution of the lease agreement.
- Lease documents were not filed properly.
- There is no system to readily track leases or other property maintained by the Department.

Questioned Costs: N/A

Context: The total land and land improvements on the financial statement is $20.3 million as of June 30, 2006.

Cause: Management of the Department has extended authority to the districts and has not maintained controls of the record keeping within the Department or at the district locations.

Effect: The lack of controls and poor record keeping could result in errors, irregularities or abuses that are not detected.

Recommendation: We recommend that the Department develop policies and procedure to establish sound record keeping and internal controls to address the issues noted above.

2006-10 Land (Continued)

Management Response: ***Agree:*** *The Department is continuing the development of a computerized tracking system for property acquisitions. In the interim, Districts are now required to file quarterly reports to allow central office to track acquisitions, sales and leases.*

The Department's new procedure of requiring the first month's rental payment at the time of execution of the lease is working well and eliminates the lessee occupation of the property prior to rental payment.

A diligent attempt is made to correctly file all documents. However, clerical errors do occur but are not indicative to a deficiency in the existing procedures.

2006 - 11 Non-Compliance with Authorized Funding Techniques

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: According to Section 6.2.1 of the *Treasury State Agreement (TSA)*, the composite clearance funding technique requires that the State request Federal funds such that they are deposited on the dollar-weighted average number of days required for funds to be debited from the State's account for a series of disbursements as determined by the program's clearance pattern.

Condition: From discussions with Department staff, it was determined that the Department has not properly implemented the composite clearance funding technique for payroll costs for programs 20.205, *Highway Planning and Construction*, and 23.003, *Appalachian Development Highway System*. According to Department staff, personnel costs that are chargeable to the Federal programs are entered into Department's billing system as the time is worked. The Department's system then accumulates these costs, along with other direct costs, to determine the amount of Federal funds to be drawn. The funds are drawn such that they are deposited ten days from the request date. Since all personnel at Department are paid in arrears, this results in the Federal funds being deposited in the State's accounts up to twenty-four days in advance of the payroll disbursements clearing the State's accounts.

Questioned Costs: Unknown

Context: Total federal expenditures were $422.9 million for these programs.

Cause: It appears that when the West Virginia State Board of Investments (the State agency previously responsible for the Cash Management Improvement Act (CMIA)) was working with the Department to implement the composite clearance funding technique there was no differentiation made between how funds were to be drawn for payroll costs and how funds were to be drawn for program costs. Additionally, when the CMIA was implemented, all State employees were paid current. Because of this, at the time the funding technique was first implemented, the method for drawing funds for payroll costs may have substantially complied with requirements for the composite clearance funding technique.

Effect: The funding method employed by the Department for payroll costs does not comply with the authorized funding technique as outlined in Section 6.2.1 of the *TSA*. This may result in each program having generated a State interest liability on payroll costs for fiscal years 2004, 2005 and 2006.

Recommendation: The Treasurer's Office should work with the Department staff to resolve this issue.

Management's Response: ***Agree:*** *The Department will continue to meet with the State Treasurer's Staff in regards to CMIA issues. The Department has worked over a decade in establishing clearance patterns for reimbursable funding from FHWA, though we do understand this procedure is more complicated each year. The Department believes we are in compliance with the authorized funding technique.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

2006-12 Subrecipient Monitoring - Policies And Procedures

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
Highway Safety Cluster	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Federal Highway Safety Data Improvements Grants	20.603
Safety Incentive Grants for Use of Seatbelts	20.604

Criteria: Pass-through entities are required to develop monitoring procedures, including programmatic and financial monitoring, to ensure subrecipients have used federal funds for authorized purposes.

Condition: While reviewing the subrecipient monitoring process for the Highway Safety Program, we noted that they have developed some monitoring procedures for the monitoring of subrecipients, including obtaining and reviewing subrecipient audit reports; however, the procedures do not address the following aspects of the monitoring plan:

- There are no policies or procedures in place to determine the frequency and which subrecipients are to be monitored. During the current year DMV did not maintain a monitoring log and performed very little on-site monitoring. Additionally, current procedures do not address areas such as frequency of monitoring reviews, follow-up on findings, and communication protocols with various departments.
- There are no policies and procedures in place to address how issues identified during the monitoring are to be resolved.

Questioned Costs: Unknown

Context: Total federal expenditures for subrecipients and total federal expenditures for the Highway Safety Cluster were $1.6 million and $6.6 million, respectively, for the year ended June 30, 2006.

Cause: Due to personnel turnover and time constraints, management indicated that a complete monitoring plan has not been developed and no on-site monitoring was performed during fiscal year 2006.

Effect: The Department is unable to determine the existence of material noncompliance or internal control issues with subrecipients that may be identified through the monitoring process in a timely manner.

Recommendation: The Department should create and implement policies and procedures for performing programmatic and financial monitoring and ensure that all aspects of the monitoring process are followed and adequately documented. Such policies and procedures should include: frequency of monitoring reviews, follow-up on program findings, and frequency of on-site visits. The Department should also consider other procedures that assist in monitoring to ensure that money is spent in accordance with the intended purpose.

Management's Response: *The Department is in the process of formalizing the policy and procedures for performing programmatic and financial monitoring of subrecipients.*