

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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2008
AND
INDEPENDENT AUDITORS' REPORTS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 12
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund	19
Notes to the Financial Statements	20 - 56
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	58
COMPLIANCE AND INTERNAL CONTROL REPORTS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	59-60
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133	61-62
Schedule of Expenditures of Federal Awards	63
Notes to the Schedule of Expenditures of Federal Awards	64
Summary Schedule of Prior Year Single Audit Findings	65-70
Schedule of Findings and Questioned Costs	71-82

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, 2008, 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 financial 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 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, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1 and 9 to the financial statements, effective July 1, 2007, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

In accordance with Government Auditing Standards, we have also issued a report dated November 25, 2008 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 3 through 12 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 Department's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements of The West Virginia Department of Transportation. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

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, 2008. 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 \$7.2 billion as of the close of fiscal year 2008.

Changes in Net Assets - During the year the Department's expenses were \$293 million less than the \$1,163 million generated in revenues for governmental activities. This is an increase compared to the prior year, when expenses were \$283 million less than revenues.

Revenues and Expenses - Total revenues increased by \$64 million or 5.78%. Total expenses increased by \$100 million or 12.29%. 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 2008, the Department's governmental funds reported combined total fund equity of \$386 million, a decrease of \$20 million in comparison to the prior year. Of this total amount, \$351 million represents the "unreserved fund balances" with substantially all being in the general fund. This is approximately 29.86 % 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 \$31 million. The Department's total outstanding Surface Transportation Improvements Special Obligation Notes decreased by \$11 million for a net decrease in debt of \$42 million or 7.23%

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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

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, 2008 and 2007 (amounts in thousands).

Net Assets as of June 30

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Total current assets	\$ 478,304	\$ 496,852	-3.73%
Capital assets, net of accumulated depreciation	7,402,845	7,163,116	3.35%
Non-current taxes receivable	4,587		100.00%
Other non-current assets	2,468	8,004	-69.17%
Total assets	<u>7,888,204</u>	<u>7,667,972</u>	2.87%
Current liabilities	146,483	151,211	-3.13%
Long term liabilities	522,604	591,018	-11.58%
Total liabilities	<u>669,087</u>	<u>742,229</u>	-9.85%
Invested in capital assets, net of related debt	6,886,996	6,592,210	4.47%
Restricted	17,892	13,975	28.03%
Unrestricted	314,229	319,558	-1.67%
Total net assets	<u>\$ 7,219,117</u>	<u>\$ 6,925,743</u>	4.24%

The largest component (95.40%) 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 is classified as either restricted or unrestricted net assets. The unrestricted net assets, may be used at the Department's discretion. The restricted net assets have constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

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):

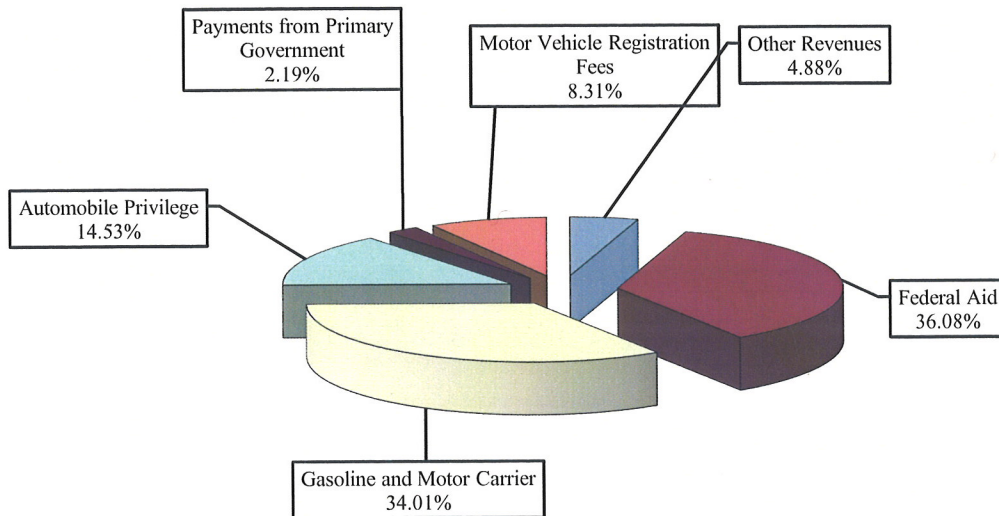
	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenues			
Taxes	\$ 566,022	\$ 536,796	5.44%
Investment and interest income	9,864	9,828	0.37%
Payments from primary government	25,499	3,541	620.11%
Miscellaneous revenues	<u>36,841</u>	<u>38,970</u>	-5.46%
Total general revenues	<u>638,226</u>	<u>589,135</u>	8.33%
Capital Grants and Contributions	422,616	410,669	2.91%
Charges for service	<u>102,632</u>	<u>100,120</u>	2.51%
Total program revenues	<u>525,248</u>	<u>510,789</u>	2.83%
Total revenues	<u>1,163,474</u>	<u>1,099,924</u>	5.78%
Expenses			
Road maintenance	410,646	338,550	21.30%
Other road operations	351,894	365,796	-3.80%
General and administration	127,377	85,938	48.22%
Bond interest and premium	23,692	22,977	3.11%
Unallocated depreciation	<u>3,262</u>	<u>3,251</u>	0.34%
Total expenses	<u>916,871</u>	<u>816,512</u>	12.29%
Change in net assets	246,603	283,412	-12.99%
Effect of Adoption of accounting principle	46,771		100.00%
Net assets, beginning	<u>6,925,743</u>	<u>6,642,331</u>	4.27%
Net assets, ending	<u>\$ 7,219,117</u>	<u>\$ 6,925,743</u>	4.24%

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 \$293 million or 4.24% 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, 2008

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



Total revenues increased by approximately \$64 million. Total tax revenues increased by approximately \$29 million. Federal aid revenue increased by approximately \$9 million or 2.23%. The following summarizes revenues for the years ended June 30, 2008 and June 30, 2007 (amounts in thousands):

	2008	2007	Increase (decrease)	% Increase (decrease)
Gasoline and motor fuel excise tax	\$ 395,641	\$ 364,550	\$ 31,091	8.53%
Aviation fuel	1,286	817	469	57.41%
Industrial access roads	2,806	3,126	(320)	(10.24%)
Automobile privilege	169,095	171,429	(2,334)	(1.36%)
Motor vehicle registration fees	96,678	91,731	4,947	5.39%
Special fees and permits	5,954	5,263	691	13.13%
Federal aid	419,810	410,669	9,141	2.23%
Investment and interest income	9,864	9,828	36	0.37%
Payments from primary government	25,499	3,541	21,958	620.11%
Miscellaneous revenues	36,841	38,970	(2,129)	(5.46%)
	<u>\$ 1,163,474</u>	<u>\$ 1,099,924</u>	<u>\$ 63,550</u>	5.78%

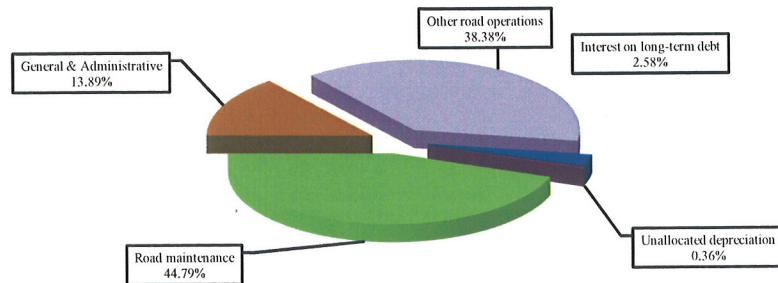
The Department's primary sources of revenue for funding of ongoing administration of the Department, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration 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, 2008

Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2004 through fiscal year 2008, actual cash revenues exceeded estimates by only 1.54%. 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 agency to adjust its budgets for inflationary increases. In FY 2009, Motor Fuel Tax revenues are projected to be approximately 6.37% below FY 2008 level due to lower fuel consumption rates; the other revenue sources will remain relatively flat. Although the agency will be able to increase its budgets somewhat, through the use of fund equity, it is anticipated that nondiscretionary costs will continue to rise. Consequently, many programs that are operated by the Department will experience little, if any, real growth in the foreseeable future.

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 2008 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 \$100 million or 12.29%. The following summarizes expenditures for the years ended June 30, 2008 and June 30, 2007 (amounts in thousands):

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>	<u>% Increase (decrease)</u>
Road maintenance	\$ 410,646	\$ 338,550	72,096	21.30%
Other road operations	351,894	365,796	(13,902)	(3.80%)
General and administration	127,377	85,938	41,439	48.22%
Interest on long term debt	23,692	22,977	715	3.11%
Unallocated depreciation	3,262	3,251	11	0.34%
	<u>\$ 916,871</u>	<u>\$ 816,512</u>	<u>100,359</u>	<u>12.29%</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

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 (SRIC) that is required in a given year. In FY 2008, the agency implemented its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

Other road operations expenditures reported in the Government-Wide Financial Statements include the total expended for all other road operations and small construction activities that fail to meet the criteria established for capitalization as infrastructure assets. A discussion of the change in actual funds expended is included in the financial analysis of the 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, 2008 the cash flows from operations were \$(335) thousand compared to \$(157) thousand in the prior year. The Authority funds capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled \$2.8 million, slightly lower than 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 decreased \$1.8 million or 2.73% for the fiscal year ended June 30, 2008. Operating expenses increased by \$2.2 million or 3.20% for the same period primarily due to inflationary pressures including fuel and wages, adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and increasing depreciation expense due to shorter pavement life cycles. The Authority experienced net losses during fiscal years ended June 30, 2008 and 2007 but generated positive cash flows from operating activities in excess of \$24.8 million in 2008 and \$26.0 million in 2007.

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, 2008, the Department reported fund balances of \$386 million. Of this total amount, \$351 million, 91.16%, 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 2008 fiscal year, unreserved fund balance of the Fund was \$320 million and reserved fund balance was \$33 million. The total fund balance increased \$47 million during the year primarily due to unexpected increases in Motor Fuel Tax revenue.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE); a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. The current GARVEE note sales are for the construction of portions of the US 35 corridor. At June 30, 2008 the balance of approximately \$15 million represented unexpended note funds associated with the 2006A note issue.

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 FY 2008 State Motor Fuel Tax revenues were substantially higher than FY 2007 collections, that increase was driven by the increase in the variable (wholesale) component of the tax rate. Due to high motor fuel prices and the faltering economy, motor fuel consumption actually decreased as motorists drove fewer miles and purchased vehicles that were more fuel-efficient. As fuel consumption continues to decline, it is expected to have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. Privilege Tax collections were lower than in FY 2007, and that downward trend is expected to continue in FY 2009 as motorists buy less expensive vehicles or keep their current vehicles longer. Tax and fee revenue collections increased by approximately \$33 million in 2008; they increased \$36 million during the previous year.

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

	<u>2008</u>	<u>2007</u>	<u>2008 vs. 2007</u>	
			<u>Change</u>	<u>%Change</u>
Gasoline, and motor fuel excise tax	\$ 395,641	\$ 364,550	\$ 31,091	8.53%
Motor vehicle registration	96,678	92,422	4,256	4.60%
Privilege tax	169,095	171,429	(2,334)	(1.36%)
Other taxes and fees	8,760	8,389	371	4.42%
	<u>\$ 670,174</u>	<u>\$ 636,790</u>	<u>\$ 33,384</u>	5.24%

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. On January 1, 2008, the variable rate rose from 11 cents to 11.7 cents per invoiced gallon.

Automobile privilege tax collections were positively impacted from 2002 through 2008 by low interest rates and significant incentives offered by automobile manufacturers, and the desire of businesses and individuals to switch to more fuel-efficient vehicles. The automobile privilege taxes decreased \$2 million in 2008.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

The Department's federal revenue for budgetary purposes for fiscal year 2008 was \$357 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 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%Change</u>
Federal reimbursement - budgeted funds	\$ 381,948	\$ 386,875	\$ (4,927)	(1.27%)
Federal Reimbursement – Surface Transportation Improvements Special Obligation Notes	14,745	1,207	13,538	1,121.62%
Federal reimbursement - emergency funds	1,530	4,451	(2,921)	(65.63%)
Total federal aid	<u>\$ 398,223</u>	<u>\$ 392,533</u>	<u>\$ 5,690</u>	1.45%

Although it is anticipated that state 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, and other increases that are non-discretionary in nature. The fiscal 2009 budget reflects a budgeted decrease in fund balance of approximately \$66 million. While that amount seems large, it still produces an ending fund balance that is adequate to ensure the soundness of the Department. If revenues are significantly less than estimated, Management is confident that adequate discretionary expenditure items can be reduced to permit the Department to continue to operate in a fiscally sound manner.

The Federal Highway Administration (FHWA) anticipates a small reduction in federal funding in FFY 2009, the last year of SAFETEA-LU. That reduction is not expected to have any significant impact on the Department's FY 2009 budget. The next six-year funding authorization is not expected to be enacted prior to the start of FFY 2010. Consequently, the Department expects to receive its obligation authority through continuing resolutions. This will not have any immediate impact on budgets but could eventually lead to a reduction in expenditures due to the Department's reduced funding authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2008, the Department had invested \$7.4 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$290 million.

The \$240 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 \$290 million in depreciation. The Department expended \$535 million dollars during the year ended June 30, 2008 for additions to capital assets, including infrastructure. Of this amount, \$507 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 \$390 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County and Grant Counties, Corridor D in Wood County, upgrade of WV 10 in Logan County, widening of I-64 in Putnam County, 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 16 in Fayette County, Fairmont Connector, Mon/Fayette Expressway, and continued environmental studies on various projects in process.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

Discretely Presented Component Units:

As of June 30, 2008, the discretely presented component units had invested \$543 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 \$33 million. Capital assets declined by approximately 1.85% as \$22 million in capital improvements were offset by the current year's 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, 2008, the Department had \$401 million in outstanding bonds. The amount outstanding decreased by \$29 million (6.67%) due to net principal payments.

The Department has been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Department issued revenue notes in the amount of \$76 million in October 2006 and \$33 million in April 2007. It is anticipated that another estimated \$75 million will be issued during fiscal year 2009. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2008, the Department had \$99 million in outstanding revenue notes. The amount decreased by \$10 million (9.42%) due to net principal payments.

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

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	\$ 36,025
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch: AA- Moody's: Aa3 S&P: AA-	2,290
Safe Roads 01A - Bonds maturing between June 1, 2007 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	47,360
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	315,515
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	68,945
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) - Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Fitch: AAA Moody's: Aaa S&P: AAA	29,930
			<u>\$ 500,065</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

Discretely Presented Component Units:

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

The amount of Parkways' outstanding debt is approximately \$6.4 million less at June 30, 2008 than it was in 2007. 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, 2008
(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	\$ 263,545	\$ 11,980	\$ 2,699
Restricted Cash and cash equivalents	57	-	-
Short term investments	-	1,174	-
Accounts receivable, net	111,788	1,721	364
Taxes receivable	67,932	-	-
Accrued interest receivable	-	278	-
Due from other State of West Virginia agencies	667	-	413
Inventories	34,063	2,451	47
Other assets	252	1,029	6
Total current assets	478,304	18,633	3,529
Non-current assets			
Capital assets, net of accumulated depreciation			
Land - non-infrastructure	16,156	2,754	4,836
Land improvements	5,075	-	-
Land improvements-work in progress	562	-	-
Buildings	64,194	48,005	-
Buildings - construction in progress	5,493	-	-
Furniture and fixtures	634	-	126
Rolling stock	58,754	3,859	640
Scientific equipment	551	-	-
Shop equipment	61	-	-
Roads	3,611,424	-	-
Bridges	1,403,038	-	-
Land - infrastructure	876,642	50,493	-
Toll road	-	401,635	-
Rail property	-	-	31,030
Work in progress	1,360,261	-	-
Total capital assets	7,402,845	506,746	36,632
Non-current investments	-	27,589	-
Non current taxes receivable	4,587	-	-
Other non-current assets	2,468	-	-
Total assets	7,888,204	552,968	40,161
LIABILITIES			
Current liabilities			
Accounts payable	54,117	1,014	418
Retainages payable	8,052	-	-
Accrued payroll and related liabilities	19,755	5,636	47
Due to other State of West Virginia agencies	2,975	-	411
Due to other States IRP	2,565	-	-
Accrued interest payable	3,130	713	-
Deferred revenue	502	1,063	-
Current maturities of long term obligations	55,387	8,017	67
Total current liabilities	146,483	16,443	943
Non-current liabilities			
Claims and judgments	12,015	-	-
Compensated absences	18,463	-	-
OPEB liabilities	5,835	484	29
Long-term debt obligations	486,291	81,917	-
Total non-current liabilities	522,604	82,401	29
Total liabilities	669,087	98,844	972
NET ASSETS			
Invested in capital assets, net of related debt	6,886,996	416,812	36,632
Restricted			
Restricted by enabling legislation	17,892	-	-
Restricted by trust indenture	-	32,096	-
Unrestricted	314,229	5,216	2,557
Total net assets	\$ 7,219,117	\$ 454,124	\$ 39,189

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

Functions/Programs	Primary Government				Net Revenue (Expenses) and Changes in Net Assets	Component Units
	Program Revenues					
	Expenses	Charges for Services	Capital Grants and Contributions			
Primary Government						
Government activities						
Road maintenance	\$ 282,337	\$ -	\$ -		\$ (282,337)	\$ -
Expressway, trunkline & feeder & SLS	92,331	-	-		(92,331)	-
Contract paving & secondary roads	17,402	-	-		(17,402)	-
Small bridge repair & replacement	1,684	-	-		(1,684)	-
Litter control program	16,892	-	-		(16,892)	-
Depreciation						
Other road operations	11,735	-	80,203		68,468	-
Interstate highways	3,276	-	80,111		76,835	-
Appalachian highways	61,495	-	259,496		198,001	-
Other federal aid programs	2,692	-	-		(2,692)	-
Non federal aid improvements	2,891	-	2,806		(85)	-
Industrial access roads	269,805	-	-		(269,805)	-
Depreciation						
General and administration	91,185	5,954	-		(85,231)	-
Support and administrative operations	7,308	-	-		(7,308)	-
Claims	28,884	96,678	-		67,794	-
Costs associated with DMV	23,692	-	-		(23,692)	-
Bond interest and premium	3,262	-	-		(3,262)	-
Unallocated depreciation						
Total primary government	\$ 916,871	\$ 102,632	\$ 422,616		(391,623)	-
Component units						
Parkways, Economic Development and Tourism Authority	\$ 78,670	\$ 64,022	\$ 298		-	(14,648)
State Rail Authority	4,319	2,465	-		-	(1,556)
Total component units	\$ 82,989	\$ 66,487	\$ 298		-	(16,204)
General revenues						
Taxes:						
Gasoline and motor carrier					395,641	-
Aviation fuel					1,286	-
Automobile privilege					169,095	-
Investment and interest income					9,864	2,393
Gain (loss) on sale of capital assets					-	(31)
Payments from primary government					25,499	3,338
Miscellaneous revenues					36,841	-
Total general revenues					638,226	5,700
Change in net assets before cumulative effect					246,603	(10,504)
Cumulative effect of adoption of accounting principle					46,771	2,690
Change in net assets					293,374	(7,814)
Net assets, beginning					6,925,743	501,127
Net assets, ending					\$ 7,219,117	\$ 493,313

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets				
Cash and cash equivalents	\$ 226,059	\$ 14,905	\$ 22,581	\$ 263,545
Restricted cash and cash equivalents	-	57	-	57
Receivables	110,960	-	828	111,788
Taxes receivable	63,044	-	-	63,044
Due from other State of West Virginia agencies	3,239	-	-	3,239
Due from other funds / agencies	5,446	-	-	5,446
Inventories	33,040	-	1,023	34,063
Other assets	-	-	252	252
Total assets	<u>\$ 441,788</u>	<u>\$ 14,962</u>	<u>\$ 24,684</u>	<u>\$ 481,434</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 52,372	\$ 946	\$ 740	\$ 54,058
Retainages payable	8,052	-	-	8,052
Accrued payroll and related liabilities	19,603	-	152	19,755
Due to other State of West Virginia agencies	2,908	-	2,639	5,547
Due to other states	-	-	2,565	2,565
Deferred revenue	502	-	-	502
Due to other funds / agencies	5,281	165	-	5,446
Total liabilities	<u>88,718</u>	<u>1,111</u>	<u>6,096</u>	<u>95,925</u>
Fund balances				
Reserved for inventories	33,040	-	1,023	34,063
Unreserved, undesignated reported in special revenue fund	<u>320,030</u>	<u>13,851</u>	<u>17,565</u>	<u>351,446</u>
Total fund balances	<u>353,070</u>	<u>13,851</u>	<u>18,588</u>	<u>385,509</u>
Total liabilities and fund balances	<u>\$ 441,788</u>	<u>\$ 14,962</u>	<u>\$ 24,684</u>	<u>\$ 481,434</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008
(amounts expressed in thousands)

Total fund balances - governmental funds	\$	385,509
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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.		9,416
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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	\$	16,156	
Land improvements- non infrastructure		5,075	
Land improvements- work in progress		562	
Buildings		64,194	
Buildings - construction in progress		5,493	
Furniture and Fixtures		634	
Rolling Stock		58,754	
Scientific Equipment		551	
Shop Equipment		61	
Roads		3,611,424	
Bridges		1,403,038	
Infrastructure Land		876,642	
Work in process		<u>1,360,261</u>	7,402,845

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.		2,468
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest payable	(3,130)		
Claims and judgments	(12,729)		
Compensated absences	(30,233)		
Other postemployment benefits liability	(5,835)		
Long-term debt obligations	<u>(529,194)</u>		<u>(581,121)</u>

Net assets of governmental activities	\$	<u><u>7,219,117</u></u>
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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	\$ 395,641	\$ -	\$ -	\$ 395,641
Aviation fuel			1,286	1,286
Automobile privilege	169,095	-	-	169,095
Industrial access	2,806	-	-	2,806
License, fees and permits				
Motor vehicle registrations and licenses	86,166	-	10,426	96,592
Special fees and permits	5,954	-	-	5,954
Federal aid	383,478	14,745	21,587	419,810
Investment and interest income, net of arbitrage rebate	7,623	2,069	172	9,864
Payments from primary government	-	-	5,969	5,969
Miscellaneous revenues	36,479	-	362	36,841
	<u>1,087,242</u>	<u>16,814</u>	<u>39,802</u>	<u>1,143,858</u>
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder, state and local services	283,726	-	-	283,726
Contract paving and secondary roads	92,331	-	-	92,331
Small bridge repair and replacement	22,480	-	-	22,480
Litter control program	1,684	-	-	1,684
Support and administrative operations	61,962	-	38,972	100,934
Division of Motor Vehicles operations	28,884	-	-	28,884
Claims	629	-	-	629
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	95,599	-	-	95,599
Appalachian highways	110,006	-	-	110,006
Other federal aid programs	288,117	70,236	-	358,353
Nonfederal aid improvements	14,791	-	-	14,791
Industrial access road	2,891	-	-	2,891
Debt service				
Principal	28,655	10,285	-	38,940
Interest	21,343	4,460	-	25,803
Bond issuance cost	-	-	-	-
	<u>1,053,098</u>	<u>84,981</u>	<u>38,972</u>	<u>1,177,051</u>
Excess (deficiency) of revenues over expenditures	34,144	(68,167)	830	(33,193)
Other financing sources (uses)				
Transfers from Primary Government	<u>12,931</u>	<u>-</u>	<u>-</u>	<u>12,931</u>
Net change in fund balances	47,075	(68,167)	830	(20,262)
Fund balances, beginning of year	<u>305,995</u>	<u>82,018</u>	<u>17,758</u>	<u>405,771</u>
Fund balances, end of year	<u>\$ 353,070</u>	<u>\$ 13,851</u>	<u>\$ 18,588</u>	<u>\$ 385,509</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	(20,262)
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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 \$530,362 exceeded depreciation of (\$289,959) in the current period.		240,403
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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.		(733)
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Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		38,940
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Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year.		86
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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 \$45,342, accretion of bond premiums of \$2,324 and increases in claims of (\$6,678) and other postemployment benefits liability of (\$5,835), exceeded the decrease in interest payable of \$149, and debt issue costs of (\$362).		34,940
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Change in net assets of governmental activities	\$	293,374
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WEST VIRGINIA DEPARTMENT OF TRANSPORTATION DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 360,000	\$ 45,800	\$ 405,800	\$ 404,223	\$ (1,577)
Automobile privilege	167,999	-	167,999	169,095	1,096
Motor vehicle registrations and licenses	88,835	-	88,835	86,396	(2,439)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,352)	(352)
Federal aid	497,300	4,243	501,543	357,152	(144,391)
Miscellaneous revenues	16,832	-	16,832	40,306	23,474
	<u>1,127,966</u>	<u>50,043</u>	<u>1,178,009</u>	<u>1,053,820</u>	<u>(124,189)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	100,000	-	100,000	93,430	6,570
Appalachian highways	150,000	-	150,000	110,119	39,881
Other federal aid programs	350,700	-	350,700	276,442	74,258
Nonfederal aid construction	20,000	10,000	30,000	11,587	18,413
Road maintenance					
Maintenance	260,288	37,728	298,016	282,091	15,925
Contract paving and secondary roads	50,000	50,000	100,000	87,784	12,216
Small bridge repair and replacement	30,000	10,000	40,000	22,136	17,864
Litter control program	1,681	-	1,681	1,681	-
Support and administrative operations					
General operations	47,798	-	47,798	36,363	11,435
Equipment revolving	15,000	-	15,000	11,431	3,569
Inventory revolving	2,000	-	2,000	(1,795)	3,795
Debt service	50,000	-	50,000	49,255	745
PSC Weight Enforcement	-	-	-	-	-
Division of Motor Vehicles operations	34,486	-	34,486	30,516	3,970
Claims - DOH and DMV	630	-	630	629	1
	<u>1,112,583</u>	<u>107,728</u>	<u>1,220,311</u>	<u>1,011,669</u>	<u>208,642</u>
Excess (deficiency) of revenues over expenditures	15,383	(57,685)	(42,302)	42,151	84,453
Fund balance, beginning of year	<u>107,425</u>	<u>(29,738)</u>	<u>77,687</u>	<u>165,480</u>	<u>87,793</u>
Fund balance, end of year	<u>\$ 122,808</u>	<u>\$ (87,423)</u>	<u>\$ 35,385</u>	<u>\$ 207,631</u>	<u>\$ 172,246</u>

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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, 2008 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 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 of Highways 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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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. Parkways can issue bonds and set rates for using the turnpike. The State's Governor or his designee serves as chairman and the State's Secretary of Transportation serves as a board member. The other five Parkways members are appointed by the Governor with the approval of the Senate. Address: 3310 Piedmont Road, Charleston, West Virginia 25311.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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 \$17,892 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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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 expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2008, 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 prior to July 1, 2001. 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 Capital Projects Fund – This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code.

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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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, 2008, on the budgetary basis to the GAAP basis for the State Road Fund follows:

Excess (deficiency) of revenues over expenditures - budgetary basis	\$ 42,151
Basis of accounting differences (budgetary to GAAP)	(8,708)
Unbudgeted funds	<u>701</u>
Excess of revenues over expenditures - GAAP basis.	<u>\$ 34,144</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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	3 - 20 years
•	Scientific equipment	3 - 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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. During 2008, the legislature passed a bill allowing regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. Expenditures for 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.

POSTEMPLOYMENT 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 postemployment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated postemployment health insurance as a liability. Effective July 1, 2007, the Department, adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities (see Note 9).

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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECENT STATEMENTS ISSUED BY THE GASB - The following statements were adopted by the Department during the fiscal year ended June 30, 2008:

- The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Department has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.
- The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Department has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements
- The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for periods beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivate instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments can be used as effective risk management or investment tools. Derivative instruments can also expose governments to significant risks and liabilities. The Department has not yet determined the effect that the adoption of GASB Statement No. 53 may have on the financial statements

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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	\$ 33,755	\$ 33,755
Cash on deposit with State Treasurer invested in BTI short term bond pool	99,867	99,867
Cash on deposit with State Treasurer invested in BTI money market pool	111,721	111,721
Cash on deposit with State Treasurer invested in BTI Division of Highways Account	14,763	14,763
Deposits with Financial Institutions	57	57
Cash in transit	667	667
Cash on hand	2,772	2,772
	<u>\$ 263,602</u>	<u>\$ 263,602</u>

West Virginia Board of Treasury Investments (BTI) Cash Liquidity Pool, Government Money Market Pool, and Division of Highways Account

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

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of 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. Two of BTI's pools, the WV Money Market and WV Government Money Market Pools have been rated AAAM by Standard & Poor's. A fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the Consolidated Fund pools and accounts, six are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, WV Short Term Bond Pool, Loan Pool, School Fund Account, and Division of Highways Account.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

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

Security Type	Credit Rating *		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 658,879	27.94%
Corporate bonds and notes	Aaa	AAA	40,000	1.70
	Aa1	AA	71,000	3.01
	Aa2	A	27,000	1.14
	Aa3	AA	20,000	0.85
Total corporate bonds and notes			158,000	6.70
U.S. agency bonds	Aaa	AAA	254,019	10.77
U.S. Treasury bills	Aaa	AAA	406,426	17.23
Negotiable certificates of deposit	P1	A-1	147,001	6.23
U.S. agency discount notes	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,058	6.36
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	62,265	2.64
U.S. agency notes	Aaa	AAA	308,898	13.10
Total repurchase agreements			371,163	15.74
			<u>\$ 2,358,470</u>	<u>100.00%</u>

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

The Department's ownership represents 4.74% of these amounts held by BTI.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial Paper	P1	A-1	\$ 7,971	2.25%
Corporate asset backed securities	Aaa	AAA	48,663	13.75
	Aaa	NR*	2,179	0.62
	NR*	AAA	1,135	0.32
	Aa3	AA	192	.06
Total corporate asset backed securities			52,169	14.75
Corporate bonds and notes	Aaa	AAA	13,146	3.72
	Aa1	AA	12,613	3.56
	Aa2	AA	20,860	5.89
	Aa2	A	1,061	0.30
	Aa3	AA	11,488	3.25
	Aa3	A	4,548	1.28
	A1	AA	4,305	1.22
	A1	A	8,361	2.36
	A2	AA	847	0.24
	A2	A	26,585	7.51
	A3	A	10,917	3.08
	Baa1	AA-	593	0.17
	Baa1	A-	2,028	0.57
	Baa3	BB+	645	0.18
Total corporate bonds and notes			117,997	33.33
U.S. agency bonds	Aaa	AAA	71,840	20.29
U.S. Treasury notes**	Aaa	AAA	81,875	23.13
U.S. agency mortgage backed securities***	Aaa	AAA	5,345	1.51
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	16,782	4.74
			<u>\$353,979</u>	<u>100.00%</u>

*NR = Not Rated

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

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

The Department's ownership represents 28.21% of these amounts held by BTI.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

The Division of Highways Account provides for the investment of proceeds from the issuance and sale of \$90 million Surface Transportation Improvements Special Obligation Notes (Garvee 2006A). The BTI does not have a policy specifically addressing credit risk in the Division of Highways Account. The following table provides information on the credit ratings of the Division of Highways Account investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Money market funds	Aaa	AAA	\$ 12	0.08%
Repurchase agreements (underlying securities):				
U.S. agency mortgage backed securities*	Aaa	AAA	14,751	99.92
			<u>\$ 14,763</u>	<u>100.00%</u>

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

The Department's ownership represents 100% of these amounts held by BTI.

Interest Rate Risk

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

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

Security Type	Carrying Value	WAM (Days)
Repurchase agreements	\$ 371,163	1
U.S. Treasury bills	406,426	31
Commercial paper	658,879	29
Certificates of deposit	147,001	95
U.S. agency discount notes	212,924	84
Corporate bonds and notes	158,000	21
U.S. agency bonds/notes	254,019	111
Money market fund	150,058	1
	<u>\$ 2,358,470</u>	<u>40</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 16,782	1
U.S. Treasury bonds/notes	81,875	744
Corporate notes	117,997	675
Corporate asset backed securities	52,169	341
U.S. agency bonds/notes	71,840	1,231
U.S. agency mortgage backed securities	5,345	570
Commercial paper	7,971	50
	<u>\$ 353,979</u>	<u>707</u>

The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Division of Highways Account arising from increasing interest rates. The following table provides information on the weighted average maturities for the various asset types in the Division of Highways Account:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 14,751	610
Money market funds	12	1
	<u>\$ 14,763</u>	<u>610</u>

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. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in the leading agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

Securities Lending

At June 30, 2008, the fair value of securities on loan and the collateral held by the pools of the BTI are as follows. Of the collateral held, \$275,442,843 was received as cash. The collateral received as cash is invested in the Mellon GSL DBT II Collateral Fund. For securities loaned at June 30, 2008, the BTI has no credit risk exposure to borrowers because the amount the BTI owes the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions. Neither the BTI nor Mellon matches maturities of investments made with cash collateral to maturities of securities loaned.

	Fair Value of Securities on Loan	Collateral Held
WV Money Market Pool	\$ 370,567,790	\$ 376,583,793
WV Government Money Market Pool	21,233,734	21,629,197
WV Short Term Bond Pool	105,587,300	106,684,760
	<u>\$ 497,388,824</u>	<u>\$ 504,897,750</u>

Deposits

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

Restricted Cash and Cash Equivalents for Debt Service Repayment

Credit Risk

The Department limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the note trust indenture that investments in money market funds be rated AAAM or AAAM-G or better by S&P. At June 30, 2008 these funds were invested with Huntington Bank in the Huntington Treasury Money Market IV and VII. The following table provides information on the credit ratings of this investment.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percentage of Assets</u>
Huntington Treasury Money Market IV & VII	Aaa	AAA	\$ 57	100%

Concentration of Credit Risk

The Department's note 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 Huntington Treasury Money Market IV and VII.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty, the Department will not be able to recover the value of the investment that is in the possession of an outside party. The Department does not have a policy for custodial credit risk. As of June 30, 2008, \$57 thousand of the Department's investments were invested in the Huntington Treasury Money Market IV and VII.

Interest rate risk

The weighted average maturity of the Huntington Treasury Money Market Fund IV and VII is less than one year. The funds are invested in money market funds that do not have a maturity date.

<u>Security Type</u>	<u>Carrying Value</u>	<u>Investment Maturity in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Huntington Treasury Money Market IV & VII	\$ 57	\$ 57	-	-	-

Foreign Currency Risk

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

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 WV Money Market Pool policies and procedures above. The State Rail Authority ownership represents .11% of these amounts held by the BTI. The carrying amount of these deposits does not differ materially from the bank balance at June 30.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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. Parkways has not adopted a formal investment policy beyond the requirements of the bond indentures.

Interest Rate Risk - Investments

As a means of limiting its exposure to fair value losses resulting from rising interest rates, Parkways bond indentures limit at least half of the Parkways investment portfolio to maturities of less than five years. As of June 30, 2008, Parkways had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10+</u>
Mutual bond funds	\$ 4,468	\$ 4,468	\$ -	\$ -	\$ -
U.S. Treasury Obligations	103	33	70	-	-
Government agency bonds	17,002	533	4,263	2,065	10,141
State government bonds	1,125	-	677	448	-
Corporate bonds	10,534	340	5,047	4,503	644
Repurchase agreements	<u>4,665</u>	<u>4,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 37,897</u>	<u>\$ 10,039</u>	<u>\$ 10,057</u>	<u>\$ 7,016</u>	<u>\$ 10,785</u>

Concentration of Credit Risk - Investments

As of June 30, 2008, Parkways had investment balances with the following issuers which were greater than or equal to 5% of the total investment balance:

<u>Type</u>	<u>Issuer</u>	<u>Percentage of Investments</u>
Mutual bond funds	Federated Government Obligations Fund	12%
Government agency bonds	Federal Home Loan Bank	9%
	Federal Home Loan Mortgage Corp.	9%
	Federal National Mortgage Association	8%
	Government National Mortgage Association	16%
Repurchase Agreement	United National Bank	12%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were \$2,846 at June 30, 2008. These deposits, which had a bank balance of \$2,984, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in Parkways' name by its agent.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

Credit Risk - Investments

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

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>
Mutual bond funds	AAA	Aaa	AAA	\$ 4,468
Government agency bonds	AAA	Aaa	AAA	17,002
State government bonds	AAA	Aaa	AAA	1,125
Corporate bonds	AAA	Aaa	AAA	<u>10,534</u>
				<u>\$ 33,129</u>

Unrated securities include a repurchase agreement of \$4,665. 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' bond indentures: 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, 2008, 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	\$ 2,846
Total other investments	<u>37,897</u>
	<u>\$ 40,743</u>
As reported on the Statement of Net Assets:	
Cash and cash equivalents	\$ 11,980
Short-term investments	1,174
Investments in securities maturing beyond one year	<u>27,589</u>
	<u>40,743</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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, 2008, among the following restricted accounts created under the various Trust Indentures or by the adoption of Parkways' resolution:

	<u>2008</u>
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1989, 1993, 2002, and 2003 Reserves	\$ 10,922
Renewal and Replacement	9,073
Operating and Maintenance	4,025
Series 2001 Debt Service	113
Series 2002 Debt Service	1,296
Series 2003 Debt Service	2,607
Insurance Liability	1,000
Economic Development and Tourism	7,489
	<u>36,525</u>
Reserve Revenue, restricted by Tri-Party Agreement	644
Facility Improvement	1,089
Highway/Bridge Contingency, restricted by Tri-Party Agreement	<u>1,000</u>
Total restricted and designated assets	<u>\$39,258</u>

The assets restricted by the 1993 Trust Indentures, as supplemented, must be used for construction, turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1993, 2002, and 2003 Reserve Account equal maximum annual debt service for such bonds. The balance in the 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 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 Facility Improvement Account was established in March 2004 by dedicating funds from the superload fees that are collected by the Division of Highways on Parkways' behalf. This fund will be used at the Board's discretion for either facility repairs and improvements or as a sinking fund for future facilities rehabilitation.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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

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.

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, 2008 consisted of the following:

	Primary Government	Component Units
Federal aid billed and not paid	\$ 11,504	\$ 298
Federal aid earned but not billed	<u>83,954</u>	<u>-</u>
Total federal aid receivable	95,458	298
Other receivables	<u>16,822</u>	<u>1,787</u>
Combined total receivables	112,280	2,085
Less: allowance for uncollectibles	<u>(492)</u>	<u>-</u>
Net accounts receivable	<u><u>\$ 111,788</u></u>	<u><u>\$ 2,085</u></u>

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

NOTE 4 – TAXES RECEIVABLE

Taxes receivable at June 30, 2008 consisted of the following:

Automobile privilege taxes	\$ 35,684
Motor fuel excise taxes	32,569
Registration fees	4,266
Less: Long-term portion	<u>(4,587)</u>
Current taxes receivable	<u><u>\$ 67,932</u></u>

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end \$4,587 is not expected to be collected within one year and is classified as a long term receivable.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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, 2008 consisted of the following:

	Primary Government	Component Units
Other agencies	\$ 667	\$ 413
	<u>\$ 667</u>	<u>\$ 413</u>

Amounts due to other State of West Virginia agencies at June 30, 2008 consisted of the following:

	Primary Government	Component Units
Public Employees Insurance Agency	\$ 1,647	\$ -
Public Employee's Retirement	1,232	-
Department of Administration	3	-
Other agencies	93	411
	<u>\$ 2,975</u>	<u>\$ 411</u>

NOTE 6 – INVENTORIES

Inventories at June 30, 2008 consisted of the following:

	Primary Government	Component Units
Materials and supplies	\$ 21,758	\$ 2,498
Equipment repair parts	8,281	-
Gas and lubrication supplies	4,024	-
	<u>\$ 34,063</u>	<u>\$ 2,498</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 7 – CAPITAL ASSETS

Governmental Activities:

Capital asset activity for Governmental Activities for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land - non infrastructure	\$ 15,701	\$ 455	\$ -	\$ 16,156
Land - infrastructure	844,674	31,968	-	876,642
Construction-in-progress - buildings	2,041	5,552	2,100	5,493
Construction-in-progress - land improvements	598	1,624	1,660	562
Construction-in-progress - roads	810,743	331,471	238,284	903,930
Construction-in-progress - bridges	465,536	143,538	152,743	456,331
Total capital assets not being depreciated	2,139,293	514,608	394,787	2,259,114
Capital assets being depreciated:				
Buildings	99,631	1,755	268	101,118
Furniture and fixtures	8,701	333	37	8,997
Land improvements - non infrastructure	6,725	1,024	40	7,709
Rolling stock	200,388	17,387	8,946	208,829
Shop equipment	3,040	-	-	3,040
Scientific equipment	2,382	36	27	2,391
Infrastructure - roads	6,874,182	237,323	-	7,111,505
Infrastructure - bridges	1,612,300	152,743	-	1,765,043
Total capital assets being depreciated	8,807,349	410,601	9,318	9,208,632
Less accumulated depreciation:				
Buildings	34,436	2,754	266	36,924
Furniture and fixtures	8,228	172	37	8,363
Land improvements - non infrastructure	2,321	336	23	2,634
Rolling stock	141,528	16,785	8,238	150,075
Shop equipment	2,970	9	-	2,979
Scientific equipment	1,762	98	20	1,840
Infrastructure - roads	3,266,045	234,036	-	3,500,081
Infrastructure - bridges	326,236	35,769	-	362,005
Total accumulated depreciation	3,783,526	289,959	8,584	4,064,901
Total capital assets being depreciated, net	5,023,823	120,642	734	5,143,731
Governmental activities capital assets, net	<u>\$ 7,163,116</u>	<u>\$ 635,250</u>	<u>\$ 395,521</u>	<u>\$ 7,402,845</u>

Current year depreciation totaling \$286,697 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$3,262 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, 2008
(amounts expressed in thousands)

NOTE 7 – CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

<u>Asset Type</u>	<u>Depreciation</u>
Buildings and improvements	\$ 2,754
Furniture and fixtures	172
Land improvements	336
Total unallocated	<u>3,262</u>
Rolling stock	16,785
Shop equipment	9
Scientific equipment	98
Total road maintenance	<u>16,892</u>
Infrastructure - roads	234,036
Infrastructure - bridges	35,769
Total other road operations	<u>269,805</u>
Total depreciation expense	<u>\$ 289,959</u>

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land - non infrastructure	\$ 50,493	\$ -	\$ -	\$ 50,493
Land - infrastructure	7,590	-	-	7,590
Total capital assets not being depreciated	<u>58,083</u>	-	-	<u>58,083</u>
Capital assets being depreciated:				
Buildings	96,682	117	-	96,799
Furniture and fixtures	451	-	-	451
Rolling stock	9,591	557	5	10,143
Infrastructure - roads	796,248	19,651	-	815,899
Infrastructure - Rail Property	43,022	1,952	45	44,929
Total capital assets being depreciated	<u>945,994</u>	<u>22,277</u>	<u>50</u>	<u>968,221</u>
Less accumulated depreciation:				
Buildings	45,296	3,498	-	48,794
Furniture and fixtures	313	12	-	325
Rolling stock	5,022	627	5	5,644
Infrastructure - roads	387,214	27,050	-	414,264
Infrastructure - bridges	12,606	1,307	14	13,899
Total accumulated depreciation	<u>450,451</u>	<u>32,494</u>	<u>19</u>	<u>482,926</u>
Total capital assets being depreciated, net	<u>495,543</u>	<u>(10,217)</u>	<u>31</u>	<u>485,295</u>
Governmental activities capital assets, net	<u>\$ 553,626</u>	<u>\$ (10,217)</u>	<u>\$ 31</u>	<u>\$ 543,378</u>

Current year depreciation totaled \$32,494

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(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, 2008, retainages payable on contracts had been reduced to these amounts on deposit in such accounts by approximately \$330.

NOTE 9 – LONG-TERM OBLIGATIONS

Governmental Activities:

Long-term obligations at June 30, 2008, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30% - 5.25%	06/01/2023	\$ 51,510	\$ -	\$ 15,485	\$ 36,025
Safe road bonds	1999	4.30% - 5.75%	06/01/2017	4,470	-	2,180	2,290
Safe road bonds	2001	3.50% - 5.50%	06/01/2013	57,490	-	10,130	47,360
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	316,375	-	860	315,515
Total general obligation bonds				429,845	-	28,655	401,190
Bond premium				28,014	-	1,941	26,073
Total general obligation bonds payable net of premium				457,859	-	30,596	427,263
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	75,970	-	7,025	68,945
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	33,190	-	3,260	29,930
Total revenue notes payable				109,160	-	10,285	98,875
Bond premium				3,439	-	383	3,056
Total revenue notes payable net of premium				112,599	-	10,668	101,931
Claims and judgments				6,050	7,309	630	12,729
Compensated absences				75,575	2,251	47,593	30,233
Other postemployment benefits				-	5,835	-	5,835
Total long-term obligations				\$ 652,083	\$ 15,395	\$ 89,487	\$ 577,991

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, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

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

Debt service expenditures for debt service funds included interest of \$25,803 for the year ended June 30, 2008. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable, liquidated through debt service funds, are as follows:

	2009	2010	2011	2012	2013	2014- 2018	2019- 2023	2024- 2028	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	\$ 49,996	\$ 49,995	\$ 49,993	\$ 49,995	\$ 38,618	\$ 157,967	\$ 117,576	\$ 47,031	\$ 561,171
Less: interest	19,911	18,405	16,828	15,130	13,388	48,277	24,736	3,306	159,981
Total principal	30,085	31,590	33,165	34,865	25,230	109,690	92,840	43,725	401,190
Bond premium	1,886	1,633	1,586	1,546	1,494	7,470	7,470	2,988	26,073
Total principal and bond premium	31,971	33,223	34,751	36,411	26,724	117,160	100,310	46,713	427,263
Revenue notes payable from federal aid revenue:									
Surface transportation special obligation notes	14,749	14,745	14,749	14,750	14,748	44,233	-	-	117,974
Less: interest	4,199	3,740	3,244	2,750	2,223	2,943	-	-	19,099
Total principal	10,550	11,005	11,505	12,000	12,525	41,290	-	-	98,875
Bond premium	382	382	382	382	382	1,146	-	-	3,056
Total principal and note premium	<u>\$ 10,932</u>	<u>\$ 11,387</u>	<u>\$ 11,887</u>	<u>\$ 12,382</u>	<u>\$ 12,907</u>	<u>\$ 42,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,931</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

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

	Compensated Absences	Other Post Employment Benefits Liability	Claims and Judgments	General Obligation Bonds Revenue Notes and Premiums	Total
Short-term liability	\$ 11,770	\$ -	\$ 714	\$ 42,903	\$ 55,387
Long-term liability	18,463	5,835	12,015	486,291	522,604
	<u>\$ 30,233</u>	<u>\$ 5,835</u>	<u>\$ 12,729</u>	<u>\$ 529,194</u>	<u>\$ 577,991</u>

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.

During the year ended June 30, 2007, the State was authorized by constitutional amendment to issue \$200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of \$76,000 were issued during October 2006 and \$33,000 were issued during April 2007. It is anticipated that approximately \$75,000 of additional Garvee notes will be issued during the fiscal year ending June 30, 2009.

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

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

	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006
Estimated claims liability, July 1	\$ 6,050	\$ 9,194	\$ 6,197
Additions for claims incurred during the year	714	630	3,094
Changes in estimates for claims of prior periods	6,595	(3,630)	300
Payments on claims	<u>(630)</u>	<u>(144)</u>	<u>(397)</u>
Estimated claims liability, June 30	<u>\$ 12,729</u>	<u>\$ 6,050</u>	<u>\$ 9,194</u>

At June 30, 2008, approximately \$8,845 of tort claims and \$16,888 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 \$12,729, 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 \$714. 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. Upon retirement, an employee may apply unused sick leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or apply unused sick leave or annual leave or both to obtain a greater benefit under the West Virginia Public Employees Retirement System.

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the non-current liability related to OPEB cost was \$5,835. For the year ended June 30, 2008, the Department recorded a cumulative effect of the adoption of this accounting principle of \$46,771, an amount equal to the June 30, 2007 liability previously recorded in accordance with GASB Statement No. 16. The Department received on-behalf payments from the WVPEIA in the amount of \$6,599. These amounts were transferred to the OPEB Plan. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$25,230 and \$12,796 respectively during 2008. As of the year end there were 490 retirees receiving these benefits.

Discretely Presented Component Units:

State Rail Authority

The following is a summary of the compensated absences for the year ended June 30, 2008:

Year ending <u>June 30</u>	<u>Short term</u> <u>Compensated</u> <u>Absences</u>	<u>Long term Other</u> <u>Postemployment</u> <u>Benefits Liability</u>
2008	\$ 67	\$ 29

Long-term debt consists of notes payable to the County Commissions of Hardy County and Hampshire County, West Virginia, payable in monthly installments ranging from \$37,852 to \$37,748, including interest ranging from 6.7% to 7.4%. The final payment was made in July of 2007.

Parkways - Long-term debt obligations of Parkways consisted of the following at June 30, 2008:

Revenue bonds payable	\$ 80,763
Capital leases	<u>1,154</u>
	<u>\$ 81,917</u>

Capital Leases - Parkways entered into - capital leases during the fiscal year 2008 - the equipment has a carrying value of \$2,201 at June 30, 2008. Future minimum lease payments are as follows for the years ending June 30:

2009	\$ 687
2010	505
2011	347
2012	221
2013	<u>193</u>
	1,953
Less amount representing interest	(112)
Less current portion	<u>(687)</u>
	<u>\$ 1,154</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds - Revenue bonds payable consisted of the following at June 30, 2008:

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	\$ 2,130
Series 2001B Bonds, issued serial bonds of \$1,505 in December 2001 at 3.50% to 5.00%, due in varying installments from June 2003 through June 2011	570
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	30,885
Series 2003 Variable Rate Demand Revenue Refunding Bonds, \$63,900 at variable rates, due in varying installments through May 2019	<u>59,100</u>
Total revenue bonds payable	\$ 97,080
Add:	
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	1,592
Less:	
Unamortized deferred loss on advance refunding	(9,250)
Unamortized discount and issuance costs	(1,329)
Current portion of revenue bonds payable	<u>(7,330)</u>
	<u>\$ 80,763</u>

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 (subsequently defeased by the 2002 refunding, see below), approximated \$31 in 2007. 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 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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM 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. 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 2008. 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 2008. 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 \$568 in 2008. 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%.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM 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).

Due to an Alternative Floating Rate Date, which occurred September 3, 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 Weekly Interest Rate determined by the Remarketing Agent.

Credit Risk

As of June 30, 2008, 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, AA- by Standards & Poor's and AA2 by Moody's Investor's Service as of June 30, 2008.

Basis Risk

The swap exposes Parkways to basis risk should the relationship between LIBOR and the Bond Market Association Municipal Swap Index (BMA) converge, causing a change in the floating rate on the swap. This Alternative Floating Rate Date occurred September 3, 2003. As a result, the expected cost savings have not been realized.

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.

On February 14, 2008, the insurer of the Series 2003 Variable Rate Demand Revenue Refunding Bonds, Financial Guaranty Insurance Company had its credit rating downgraded below the minimum bond insurer rating specified in the Liquidity Facility for the Series 2003 Bonds. Once the bond insurer's credit rating remains at this level for a period of thirty consecutive days, the Liquidity Provider for the Series 2003 Bonds has the right to elect to terminate the Liquidity Facility by giving written notice to the Trustee, Parkways, the Remarketing Agent and the Insurer not less than 30 days from the date of receipt of such notice by the Trustee. The Liquidity Provider did not exercise this option. However a majority of bondholders had exercised their option to tender for purchase their interest in the Series 2003 Bonds since February 14, 2008.

Upon receipt of an irrevocable written notice, the Tender Agent must purchase the principal amount of such identified bonds no later than seven days after the receipt of the notice. In the event any bonds having been so tendered are not then remarketed by the Remarketing Agent, the Liquidity Provider must purchase the tendered bonds under the Liquidity Facility. Upon such purchase by the Liquidity Provider, such Series 2003 Bonds become "Purchased Bonds" with the Liquidity Provider as the holder thereof.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

In the event the Liquidity Provider had elected to give notice of termination as a result of the bond insurer's credit rating remaining below the specified level for 30 or more days, as noted above, then the effect on Parkways would be as follows: (a) the Trustee would be required to give notice of mandatory tender of those Series 2003 Bonds that are not already "Purchased Bonds" on a date prior to the expiration of the Liquidity Facility, (b) the Liquidity Provider would be required to purchase such tendered Bonds, (c) all Series 2003 Bonds then would become "Purchased Bonds," (d) the interest rate on all "Purchased Bonds" becomes the Wall Street Journal prime rate for 90 days from the date of their compulsory purchase by the Liquidity Provider, then after 90 days have elapsed the interest rate becomes the Wall Street Journal prime rate plus 100 basis points and ultimately, after 180 days, the interest rate becomes the Wall Street Journal prime rate plus 200 basis points. In addition, after 180 days from the date they were purchased by the Liquidity Provider, the principal amount of "Purchased Bonds" must be redeemed by Parkways in ten equal semi-annual installments commencing approximately six months after the 180th day together with all unpaid interest at the Wall Street Journal prime rate plus 200 basis points, with the final installment of principal due no later than the fifth anniversary of the beginning of such special redemption period.

Fair Value

As a result of the credit rating downgrade of the bond insurer, the Weekly Interest Rate on the Series 2003 Bonds has increased above historical levels and Parkways' interest rate swap is not sufficient to fully hedge the interest rate risk of the variable rate bonds and accordingly, as long as such condition persists, the intention of the swap to synthetically fix the interest rate will not be maintained. Further, because the variable interest rates related to the swap have declined further, the swap had a negative fair value of \$4,613 as of June 30, 2008. 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

To resolve the above technical violation of the bond indenture regarding the Series 2003 Variable Rate Demand Revenue Refunding Bonds, Parkways refinanced these bonds through the issuance of the Series 2008 Variable Rate Demand Revenue Refunding Bonds.

Swap Payments and Associated Debt

Using rates as of June 30, 2008, 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	<u>Variable-Rate Bonds</u>		<u>Interest Rate Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2009	\$ 4,300	\$ 3,551	\$ (823)	\$ 7,028
2010	4,300	3,961	(1,431)	6,830
2011	4,700	3,651	(1,322)	7,029
2012	4,700	3,311	(1,169)	6,842
2013	5,200	2,971	(1,082)	7,089
2014-2018	29,200	8,964	(3,274)	34,890
2019	6,700	484	(193)	6,991
	<u>\$ 59,100</u>	<u>\$ 26,893</u>	<u>\$ (9,294)</u>	<u>\$ 76,699</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

The following schedule summarizes the revenue bonds outstanding as of June 30, 2008:

2008	Beginning Balance	Additions	Retired	Amortizations	Ending Balance	Due Within One Year
Series 2001	\$ 7,670	\$ -	\$ (795)	\$ 60	\$ 6,935	\$ 845
Series 2002	\$ 29,745	\$ -	\$ (1,985)	\$ 270	28,030	\$ 2,185
Series 2003	\$ 56,459	\$ -	\$ (3,900)	\$ 569	53,128	\$ 4,300
	<u>\$ 93,874</u>	<u>\$ -</u>	<u>\$ (6,680)</u>	<u>\$ 899</u>	<u>\$ 88,093</u>	<u>\$ 7,330</u>

Debt service requirements for the Revenue Bonds subsequent to June 30, 2008, are as follows:

	Year Ended June 30	Principal Maturities	Interest, Including Accretion	Total
	2009	\$ 7,330	\$ 4,736	\$ 12,066
	2010	7,405	4,375	11,780
	2011	8,090	4,006	12,096
	2012	7,120	3,628	10,748
	2013	9,985	3,196	13,181
	2014-2018	46,865	9,316	56,181
	2019	10,285	480	10,765
		<u>\$ 97,080</u>	<u>\$ 29,737</u>	<u>\$ 126,817</u>
Add:				
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds		1,592		
Less:				
Unamortized deferred loss on advance refunding		(9,250)		
Unamortized discount and issuance costs		(1,329)		
Current portion of revenue bonds payable		(7,330)		
		<u>\$ 80,763</u>		

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for the Bonds to maintain their tax-exempt status. At June 30, 2008, Parkways' estimated arbitrage rebate liability was zero.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 9 – LONG-TERM OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Postemployment Benefits Other than Pensions

Plan Description

Parkways participates in the West Virginia Other Postemployment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree postemployment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia 25305-0710 or by calling 1-888-680-7342.

Funding Policy

The code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

Parkways' contributions to the OPEB Plan for the year ended June 30, 2008 (year of implementation of GASB Statement 45, in accordance with the required implementation of that statement), was \$915 and the billed ARC was \$1,894. During the year ended June 30, 2008, Parkways received on-behalf payments from the WVPEIA in the amount of \$496. These amounts were transferred to the OPEB Plan which results in a net ARC liability of \$484, which is included in Parkways' liabilities as of June 30, 2008.

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, 2008, 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, 2008, the Department incurred payroll related expenditures of approximately \$33,133 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$18,557 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, 2008 the Division paid approximately \$8,946 to BrickStreet Insurance Company for coverage through June 30, 2008.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

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 \$717,249 at June 30, 2008. In addition, Parkways had contractual commitments totaling \$14,711 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.

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

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Department. At June 30, 2008, there were approximately 460 open cases. These cases involve the acquisitions of properties by the Department for right of way purposes. The Department has paid the applicable courts on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Department.

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, 4101 MacCorkle Avenue, S.E., Charleston, West Virginia 25304 or by calling (304) 558-3570.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2008
(amounts expressed in thousands)

NOTE 12 – RETIREMENT PLAN (Continued)

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 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, 2008, 2007 and 2006 were \$18,557, \$18,254 and \$18,130 respectively, equal to the required contributions for each year.

Discretely Presented Component Units:

State Rail Authority's contributions to PERS for the years ended June 30, 2008, 2007 and 2006 were \$66, \$66 and \$66.

Parkways' contributions to PERS for the years ended June 30, 2008, 2007 and 2006 were \$1,594, \$1,474 and \$1,453

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. BrickStreet Insurance, a private mutual insurance company, provided coverage for work related accidents. 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.

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 Division of Highways is expected to issue revenue notes in the amount of \$75 million sometime in FY 2009. Issuance, originally planned for late September 2008, has been delayed due to the current turmoil on Wall Street. As soon as the bond market settles, the notes will be offered for purchase. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue and are the third issue of the Surface Transportation Improvements Special Obligations Notes.

Because of the downgrade of the bond insurer and corresponding increase of the Series 2003 variable interest rate, the ability of Parkways to maintain its revenue bond requirements was significantly impaired. On July 2, 2008, subsequent to year end, the West Virginia Parkways, Economic Development and Tourism Authority issued \$59,100 of Series 2008 Variable Rate Demand Revenue Refunding Bonds. The purpose of these bonds is to advance refund the outstanding balance of the Parkways' Series 2003 Variable Rate Demand Revenue Refunding Bonds. The series 2008 bonds require payment of principle and interest at variable rates, due in varying installments through April 2019 on a schedule substantially similar to that of the Series 2003 bonds.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	\$ 14,928	\$ 741	\$ 3,673	\$ 3,239	\$ 22,581
Receivables	533	33	262	-	828
Inventories	1,023	-	-	-	1,023
Other assets	252	-	-	-	252
Total assets	<u>\$ 16,736</u>	<u>\$ 774</u>	<u>\$ 3,935</u>	<u>\$ 3,239</u>	<u>\$ 24,684</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 684	\$ -	\$ 56	\$ -	\$ 740
Accrued payroll and related liabilities	102	27	10	13	152
Due to other funds/agencies	2,639	-	-	-	2,639
Due to other states	2,565	-	-	-	2,565
Deferred revenue	-	-	-	-	-
Total liabilities	<u>5,990</u>	<u>27</u>	<u>66</u>	<u>13</u>	<u>6,096</u>
Fund balances					
Reserved for inventories	1,023	-	-	-	1,023
Unreserved, undesignated	9,723	747	3,869	3,226	17,565
Total fund balances	<u>10,746</u>	<u>747</u>	<u>3,869</u>	<u>3,226</u>	<u>18,588</u>
Total liabilities and fund balances	<u>\$ 16,736</u>	<u>\$ 774</u>	<u>\$ 3,935</u>	<u>\$ 3,239</u>	<u>\$ 24,684</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
Revenues					
Taxes					
Aviation fuel	\$ -	\$ -	\$ 1,286	\$ -	\$ 1,286
License, fees and permits					
Motor vehicle registrations and licenses	10,426	-	-	-	10,426
Federal aid	10,489	11,098	-	-	21,587
Payments from primary government	-	2,468	940	2,561	5,969
Miscellaneous revenues	-	362	128	44	534
	<u>20,915</u>	<u>13,928</u>	<u>2,354</u>	<u>2,605</u>	<u>39,802</u>
Expenditures					
Current					
Support and administrative operations	23,200	13,964	1,394	414	38,972
	<u>23,200</u>	<u>13,964</u>	<u>1,394</u>	<u>414</u>	<u>38,972</u>
Excess (deficiency) of revenues over expenditures	(2,285)	(36)	960	2,191	830
Fund balances, beginning of year	<u>13,031</u>	<u>783</u>	<u>2,909</u>	<u>1,035</u>	<u>17,758</u>
Fund balances, end of year	<u>\$ 10,746</u>	<u>\$ 747</u>	<u>\$ 3,869</u>	<u>\$ 3,226</u>	<u>\$ 18,588</u>

COMPLIANCE AND INTERNAL CONTROL REPORTS

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 (the Department) as of and for the year ended June 30, 2008, which collectively comprise the West Virginia Department of Transportation's basic financial statements and have issued our report thereon dated November 25, 2008 which contained a matter of emphasis paragraph that the Department adopted Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the year ended June 30, 2008. 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. Other auditors audited the financial statements of the Parkways, Economic Development and Tourism Authority, a discretely presented component unit, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2008-7 through 2008-12 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 as items 2008-7 through 2008-12.

We noted certain matters that we reported to management of the Department in a separate letter dated November 25, 2008.

This report is intended 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 those specified parties.

Kapriel & Stimp, CPAs, PLLC

November 25, 2008

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the West Virginia Department of Transportation (the Department) 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, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department'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 Department'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 Department's compliance with those requirements.

In our opinion, the Department 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 items 2008-7 through 2008-12.

Internal Control Over Compliance

The management of the Department 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 Department'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-7 through 2008-12 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Department's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Department's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended 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 those specified parties.


November 25, 2008

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Division</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Cooperative Forestry Assistance	DOH	10.664	\$ 49,401
Schools and Roads - Grants to States	DOH	10.665	<u>302,036</u>
Total U.S. Department of Agriculture			<u>351,437</u>
U.S. Department of Justice			
Passed-through State of West Virginia Department of Motor Vehicles			
Public Safety Partnership and Community Policing Grants	DMV	16.710	<u>1,853,494</u>
Total U.S. Department of Justice			<u>1,853,494</u>
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	317,882,181
Appalachian Development Highway System	DOH	23.003	77,210,666
Performance and Registration Information Systems Management	DMV	20.231	10,794
Commercial Driver License State Programs	DMV	20.232	278,004
Recreational Trails Funding Program	DOH	20.219	1,100,036
Federal Transit Capital Improvement Grant	PT	20.500	5,746,165
Federal Transit Technical Studies Grant	PT	20.505	172,978
Public Transportation for Nonurbanized Areas	PT	20.509	4,616,126
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	559,958
Job Access Reverse Commute	PT	20.516	27,467
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	2,729,704
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	469,140
Safety Incentive Grants for Use of Seatbelts	DMV	20.604	90,563
State Traffic Safety Information System Improvement Grants	DMV	20.610	42,294
Incentive Grant Program to Prohibit Racial Profiling	DMV	20.611	818,801
Incentive Grant Program to Increase Motorcycle Safety	DMV	20.612	100,000
Child Safety and Child Booster Seat Incentive Grants	DMV	20.613	163,819
Alcohol Open Container Requirements	DMV	20.607	2,370,233
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	DMV	20.608	4,090,415
National Highway Transportation Safety Administration Discretionary Safety Grants	DOH	20.614	<u>71,423</u>
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			<u>418,550,767</u>
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	<u>1,529,632</u>
Total U.S. Department of Homeland Security			<u>1,529,632</u>
Total Federal Expenditures			<u>\$ 422,285,330</u>
DMV Division of Motor Vehicles	PT	Public Transit	
DOH Division of Highways			

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

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, 2008. These organizations are responsible when necessary, for obtaining separate audits of their federal award programs. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - SUBRECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided to (Refunded from) Subrecipients</u>
Public Safety Partnership and Community Policing Grants	16.710	1,510,191
Highway Planning and Construction	20.205	11,548,958
Federal Transit Capital Improvement Grant	20.500	1,115,604
Federal Transit Technical Studies Grant	20.505	143,494
Public Transportation for Nonurbanized Areas	20.509	3,696,544
Capital Assistance Program for Elderly Persons And Persons with Disabilities	20.513	7,929
State and Community Highway Safety	20.600	1,668,237
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	223,314
Safety Incentive Grants for Use of Seatbelts	20.604	74,191
State Traffic Safety Information System Improvements Grants	20.610	22,792
Incentive Grant Program to Prohibit Racial Profiling	20.611	171,723
Child Safety and Child Booster Seat Incentive Grants	20.613	57,043
		<u>\$ 20,240,020</u>

NOTE 3 - MAJOR FEDERAL AWARD PROGRAM

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-7 CFDA# 20.205, 23.003, 20.500, 20.509, 20.600, 20.601, 20.604, 20.605, 20.611, 20.613, & 97.036 Highway Planning and Construction Cluster, Appalachian Development Highway Safety, Federal Transit Capital Grants, Public Transportation for Nonurbanized Areas, Highway Safety Cluster, and Public Assistance Grants	<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 had 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. (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. (Noted in the prior year) • 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. (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, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-8 CFDA# 20.205 & 23.003, Highway Planning and Construction Cluster, and Appalachian Development Highway System	<u>Land and Leases</u> - 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. • There is no system to readily track leases or other property maintained by the Department. • We noted that the one right of way auction there was no indication the sale was properly recorded in accounting due to the Right of Way division controlling the accounting instead of finance. • We noted that the one right of way auction had not been removed from the records in a timely fashion due to a conflict as to where the sales proceeds should be applied. <u>Current year status</u> -- Resolved	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-9 CFDA# 20.205 & 23.003, Highway Planning and Construction Cluster, and Appalachian Development Highway System	<u>Notice to Proceed – Utility Delays</u> - We reviewed contract jobs awarded during the fiscal year ended June 30, 2007 and noted the following: There were fifteen instances identified where contractors were provided with a formal notice to proceed prior to securing proper authorizations to proceed from utility companies resulting in idle equipment rental charges from the contractors. <u>Current year status</u> – Resolved	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-10 CFDA# 20.205, 23.003, & 97.036 Highway Planning and Construction Cluster, Appalachian Development Highway System, and Public Assistance Grants	<u>Payroll Authorization Procedures</u> - We reviewed individual employee payroll cash disbursements during the fiscal year ended June 30, 2007 and noted the following: • There were 16 instances identified in which there was no approval of the daily time sheet. • There were 4 instances in which the annual leave form was not approved by a supervisor. <u>Current year status</u> – Partially resolved	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-11 CFDA# 20.205, & 23.003 Highway Planning and Construction Cluster, and Appalachian Development Highway System	<u>Non-Compliance with Authorized Funding Techniques</u> – 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 the 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. <u>Current year status</u> – Partially resolved	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Program	Findings/Noncompliance	Questioned Costs
2007-12 CFDA# 20.205, 20.600, 20.601, & 20.604 Highway Planning and Construction Cluster, State & Community Highway Safety, Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, and Safety Incentive Grants for Use of Seatbelts	<u>Subrecipient Monitoring-Policies and Procedures</u> - While reviewing the Department's subrecipient monitoring procedures, we noted the following: • The Department does not perform desk reviews. • There is no corrective action or auditee response to the noted findings for some of the items tested. There is no way to determine whether findings were sufficiently addressed. • One instance was noted where a report was not received within 9 months of fiscal year end for one of twelve items tested. • The audit report of the subrecipient was not stamped when received for two of twelve items tested. <u>Current year status</u> – Partially resolved	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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	_____ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ <u>X</u> yes	_____ none reported
Noncompliance material to financial statements noted?	_____ <u>X</u> yes	_____ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ <u>X</u> 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?	_____ <u>X</u> yes	_____ no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Transportation, U.S. Appalachian Regional Commission	
<u>Highway Planning and Construction Cluster</u>	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003
Federal Transit Capital Investment Grant	20.500
Public Transportation for Nonurbanized Areas	20.509
<u>Highway Safety Cluster</u>	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Safety Incentive Grants for Use of Seatbelts	20.604
State Traffic Safety Information System Improvement Grants	20.610
Incentive Grant Program to Prohibit Racial Profiling	20.611
Incentive Grant Program to Increase Motorcycle Safety	20.612
Child Safety and Child Booster Seat Incentive Grants	20.613
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608
U.S. Department for Homeland Security	
Public Assistance Grants	97.036

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000	
Auditee qualified as low-risk auditee?	_____ <u>X</u> yes	_____ no

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Section II Financial Statement Findings Section

2008 – 1	Information Systems Controls See related finding at 2008 – 7
2008 – 2	Payroll Authorization Procedures See related finding at 2008 – 8
2008 – 3	Misapplication of Federal Highways Emergency Relief Funds See related finding at 2008 – 9
2008 – 4	Inventory Process and Procedures See related finding at 2008 – 10
2008 – 5	Subrecipient Monitoring – Policies and Procedures See related finding at 2008 – 11
2008 – 6	Non-Compliance with Authorized Funding Techniques See related finding at 2008 – 12

SECTION III
FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS SECTION

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 7 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
Federal Transit Capital Investment Grant	20.500
Public Transportation for Non-urbanized Areas	20.509
Highway Safety Cluster	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Safety Incentive Grants for Use of Seatbelts	20.604
State Traffic Safety Information System Improvement Grants	20.610
Incentive Grant Program to Prohibit Racial Profiling	20.611
Incentive Grant Program to Increase Motorcycle Safety	20.612
Child Safety and Child Booster Seat Incentive Grants	20.613
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608
U.S. Department for Homeland Security	
Public Assistance Grants	97.036

Criteria: The management of the Department is responsible for establishing and maintaining adequate information systems internal controls over financial reporting. 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. The Department entered into an agreement with the West Virginia Office of Technology (OT) dated February 1, 2007, pursuant to West Virginia Code Article 6 Chapter 5A, OT is providing the Department with a standardized technology infrastructure from a centrally-managed technology infrastructure support organization. The expected benefit is a decline in technology cost, network and system availability is expected to improve, and security risks to diminish. While the Department and West Virginia Code outsourced the technology infrastructure of the Department to OT the Department retains the final responsibility for establishing and maintaining adequate information systems internal controls over financial reporting.

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 Office of Technology of the State of West Virginia (OT), the Department had a vulnerability test conducted on all access points from the OT 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. Additionally, 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. (Noted in prior year)

Questioned Costs: N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 7 Information Systems Controls (Continued)

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 use and/or access to critical information systems may occur and not be detected.

Recommendation: The Department should complete a vulnerability assessment of the internal network environment and related wireless networks. These reviews could be conducted under a statewide contract that is currently in place. 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.

Management

Response: **Agree:**

- *The OT is establishing an Internal IT Review and Audit function. As part of this function, the OT is developing a proposal to procure the services of an independent firm to conduct an initial, comprehensive, security assessment of the internal and external network environment. The plan is to issue the proposal in FY 2009. The OT is a cost for service organization. Accordingly, the costs associated with the security assessment will be assumed and shared by the agencies benefiting from the review.*
- *The OT has purchased and installed the Tenable Security Center (TSC) to provide asset-based vulnerability testing. The OT has initiated the scanning, reporting, and follow-up processes. Weekly scans are being performed and scan reports are being sent to the appropriate asset owner. The OT will work with asset owners to refine the reporting and follow-up processes.*
- *The OT is developing a vulnerability remediation policy, has issued a draft internal IT audit policy/procedure, and is drafting a network vulnerability assessment procedure. These are expected to be finalized in FY 2009.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 8 Payroll Authorization Procedures

Federal Program Information:

CFDA Number

U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003
U.S. Department for Homeland Security	
Public Assistance Grants	97.036

Criteria: The management of the Department is responsible for establishing and maintaining adequate controls related to the approval of payroll for employees of the Department.

Condition: We reviewed individual employee payroll cash disbursements during the fiscal year ended June 30, 2008 and noted the following:

The daily labor reports (DOT – 12) are not being properly approved prior to entry in the Department’s payroll system. Additionally, we noted a lack of segregation of duties related to the entry and approval of payroll transactions.

We reviewed 40 Department employee payroll cash disbursements during the fiscal year ended June 30, 2008 and noted the following:

- There were 4 instances identified where there was no signature approval on the DOT - 12.
- There was 1 instance where no supervisory approval was found on annual leave slip.
- There were 7 instances identified in which the DOT – 12 was approved by an employee who was also being paid on the same form. Additionally, there were two instances where the DOT – 12 was prepared, entered and approved by the same employee.

We reviewed 22 small agency employee payroll cash disbursements during the fiscal year ended June 30, 2008 and noted the following:

- There was 1 instance where no annual leave slip was provided.

We reviewed 40 Department employee payroll overtime cash disbursements during the fiscal year ended June 30, 2008 and noted the following:

- There were 2 instances identified where there was no signature approval on the DOT - 12. Also, there was 1 instance where there was no signature approval on the employee time report.
- There were 6 instances identified where there was no signature approval on the overtime justification form. Additionally, there was 1 instance where no overtime justification form was found.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 8 Payroll Authorization Procedures (Continued)

- There were 5 instances identified in which the DOT – 12 was approved by an employee who was also being paid on the same form. Additionally, there were two instances where the DOT – 12 was prepared, entered and approved by the same employee.
- There were 2 instances identified of improper completion of the DOT-12. A screen print page was used to report holiday pay instead of preparing a DOT-12.

Questioned Costs: Unknown

Context: Total payroll expense for fiscal year ended June 30, 2008 was approximately \$169 million.

Cause: The Department appears to have sound policies and procedures in place for the approval of individual employee pay but has failed to actively enforce the procedures.

Effect: Amounts claimed as compensation may not be indicative of the actual hours worked.

Recommendation: We recommend that the Department enforce and monitor existing payroll authorization procedures.

Management
Response:

Agree: - *The Chief Engineer and Business Manager will work with Finance Division to develop a memorandum from the Commissioner to all DOH reiterating the approval process and the need for compliance.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 9 Misapplication of Federal Highways Emergency Relief Funds

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: Title 23, United States Code, Section 125, created a special program from the Highway Trust Fund for the repair or reconstruction of Federal-aid highways and roads on Federal lands which have suffered serious damage as a result of (1) natural disasters or (2) catastrophic failures from an external cause. This program is commonly referred to as the Emergency Relief (ER) program. The Department has established policies and procedures for the proper administration of flood-related damages in conjunction with this program.

Condition: A West Virginia Department of Transportation Auditing report dated June 3, 2008 identified several significant deficiencies related to its review of ER flood authorizations in District Six. Per Department management's request, the review focused on flood events of September 2004 and January 2005. ER funds totaling \$13.5 million were allocated for 83 sites for the September 2004 event while \$9.5 million was allocated for 85 sites for the January 2005 event. The areas of concern identified by this review were charges to the wrong site, charges to non-approved sites, and charges to non-flood related repairs. This report was provided to the Federal Highway Administration (FHWA), which responded by taking the following actions:

- Suspension of reimbursement payments for District Six ER work incurred but unbilled.
- Suspension of all new funding authorizations for District Six except for projects affecting public safety.
- Deferral of contract letting for authorized Federal Aid projects in District Six.

FHWA has provided the Department with a three-part plan that must be completed before the above restrictions can be lifted:

- 1) Written controls and procedures must be in place in District Six to address the identified significant deficiencies.
- 2) The Department must provide FHWA a reconciliation of questioned billings related to the September 2004 and January 2005 flood events that have already been reimbursed.
- 3) The Department must test ER authorizations in other districts to determine if similar significant deficiencies are present.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 9 Misapplication of Federal Highways Emergency Relief Funds (Continued)

Questioned Costs: \$2,000,000

Context: Total Federal Highways Emergency Relief Funds (ER funds) expenditures for the years ended June 30, 2005 and 2004 were \$9.5 and \$13.5 million.

Cause: The Department failed to monitor and actively enforce the procedures related to the expenditure of ER funds.

Effect: Federal awards earmarked for disaster relief projects were misappropriated.

Recommendation: We recommend that the Department complete the three steps outlined by FHWA and develop policies and procedures to ensure the proper application of federal funds.

Management
Response:

Agree:

- *The DOH has drafted revisions to the Administrative Operating Procedures that would address the significant deficiencies in controls found in the application of ER funds in D-6.*
- *D-6 has reviewed all projects and billings for the September 2004 and January 2005 flood events. An independent review of these charges is being performed by a team from the central office and includes personnel from Finance, Maintenance and Auditing. This team has also worked with personnel from FHWA to resolve this issue.*
- *The Finance Division did perform a test regarding projects in other Districts and found no additional significant deficiencies.*
- *This test was reviewed by DOT Audit and was shared or can be shared with FHWA and FEMA Auditors.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 10 Inventory Process and Procedures

Federal Program Information:

CFDA Number

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

20.205
23.003

Criteria: The management of the Department is responsible for establishing policies and procedures to adequately report and safeguard inventory.

Condition: We observed physical inventory counts on June 29, 2008. The four districts selected for observation were Districts One, Two, Three and Six. While minor issues were identified in most districts, significant issues regarding the inventory process and procedures were identified in District Six. These include:

- Unsuccessful client recounts of inventory items after initial inventory counts by auditors identified errors.
- Insufficient manpower to perform the inventory.
- Lack of proper training and knowledge of inventory procedures.

Questioned Costs: Unknown

Context: Total inventory at June 30, 2008 was approximately \$34 million.

Cause: District supervisors failed to observed Department policies and procedures.

Effect: Amounts reported as inventory may not be correct.

Recommendation: We recommend that the Department enforce and monitor existing inventory control procedures.

Management
Response:

Agree: - *The District Manager will be instructed to provide sufficient manpower and to insure that proper training of inventory procedures are relayed to personnel involved.*

District Six will hold a training meeting prior to the physical inventory. The District Engineer/Manager has already provided instructions to his staff that the conducting of a complete and accurate physical inventory will be a priority at the end of the fiscal year. The District Engineer/Manager has also advised his staff they will assign personnel to complete the inventory that are trained and competent. District Six has requested assistance in performing quarterly inventories based on their past error rates. The staff of District Six believes this will help to protect the taxpayers' investment and improve the accountability for issuing inventory items.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 11 Subrecipient Monitoring

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
Safety Incentive Grants for Use of Seatbelts		20.604
State Traffic Safety Information System Improvement Grants		20.610
Incentive Grant Program to Prohibit Racial Profiling		20.611
Incentive Grant Program to Increase Motorcycle Safety		20.612
Child Safety and Child Booster Seat Incentive Grants		20.613
Minimum Penalties for Repeat Offenders for Driving While Intoxicated		20.608
Criteria:	Pass-through entities are required to develop monitoring procedures including programmatic and financial monitoring to ensure sub-recipients have used federal funds for authorized purposes. The Governor's Highway Safety Program (GHSP), a section of the Department of Motor Vehicles, performs sub-recipient monitoring activities through review and approval of reimbursement request forms, site visits, and review of annual audited financial statements. For site visits and financial statement review, GHSP monitors a sample of sub-recipients. This sample includes those entities required to have a single audit performed in accordance with OMB Circular No. A-133 which include entities expending federal funds of \$500,000 or more in a year.	
Condition:	Our testing of GHSP's financial monitoring activities for FY 2008 identified the following deficiencies: • GHSP failed to complete site visits for 5 of the 7 sub-recipients required to have single audits. No reports for the 2 site visits completed were available for review. • GHSP failed to review audited financial statements for 4 of 4 entities who were required to submit and had provided audited financial statements as of the date of our review.	
Questioned Costs:	Unknown	
Context:	Total affected subawards for the year ended June 30, 2008 was approximately \$2.2 million.	
Cause:	The Department failed to allocate sufficient manpower to perform the required monitoring.	
Effect:	The Department may be unaware of significant sub-awardee audit findings.	
Recommendation:	We recommend that the Department follow its established policies and procedures for monitoring the financial activities and condition of sub-recipients. This will help ensure that federal funds are used only for approved activities.	
Management Response:	Agree: - <i>We are taking steps to ensure compliance with the established policies and procedures for monitoring the financial activities and condition of sub-recipients.</i>	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 12 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
Appalachian Development Highway System

20.205
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 Highway Planning and Construction Cluster programs' 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 the 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 for these programs was \$395,092,847.

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 year 2008 and 2007.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 12 Non-Compliance with Authorized Funding Techniques (Continued)

Management
Response:

Agree: - *The State Treasurer's Office and the Division of Highways financial staff have met about this issue several times in the past few months. Financial Management Services approved an interest neutral funding technique change for the payroll transactions on August 15, 2008 for fiscal years 2008 and 2009. The Division will be compliance with the CMIA language in fiscal year 2009.*