

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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2005
AND
INDEPENDENT AUDITORS' REPORTS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	6 - 14
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund	22
Notes to the Financial Statements	23 - 51
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	54
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>	56
Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program	58
Schedule of Expenditures of Federal Awards	60
Notes to the Schedule of Expenditures of Federal Awards	61
Summary Schedule of Prior Year Single Audit Findings	62 - 65
Schedule of Findings and Questioned Costs	66 - 91

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, 2005, which collectively comprise the West Virginia Department of Transportation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the West Virginia Parkways, Economic Development and Tourism Authority, a discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the West Virginia Parkways, Economic Development and Tourism Authority is based solely on the report of the other auditors.

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

As discussed in Note 1, the financial statements of the West Virginia Department of Transportation are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation of the State of West Virginia that is attributable to the transactions of the West Virginia Department of Transportation. They do not purport to, and do not, present fairly, the financial position of the State of West Virginia as of June 30, 2005 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, 2005, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2005 on our consideration of the West Virginia Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Department of Transportation's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Suttle & Stalnaker, PLLC

November 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

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, 2005. This section introduces the basic financial statements and provides an analytical overview of the Department's financial activities. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Department's total combined net assets are \$6.3 billion as of the close of fiscal year 2005.

Changes in Net Assets - During the year the Department's expenses were \$239 million less than the \$1,086 million generated in revenues for governmental activities. This is a decrease compared to the prior year, when expenses were \$252 million less than revenues.

Revenues and Expenses - Total revenues increased by \$55 million or 5.34%. Total expenses increased by \$68 million or 8.73%. 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 2005, the Department's governmental funds reported combined total fund equity of \$231 million, an increase of \$26 million in comparison to the prior year. Of this total amount, \$198 million represents the "unreserved fund balances" with substantially all being in the general fund. This is approximately 18.70 % of the total governmental fund expenditures for the year.

Long-term Debt - The Department's total outstanding general obligation bonds, net of bond premiums, increased by \$2.8 million 0.56% during the current fiscal year. There was a bond refinancing in May 2005.

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, 2005

Refer to Note 1 of the financial statements for more detailed information on the elements of the financial statements. The following Table summarizes the major features of the basic financial statements:

Major Features of the Basic Financial Statements

	Government-wide Financial Statements	Fund Financial Statements
Scope	Entire Department	Activities of the Department excluding discretely presented component units
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be depleted and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year Expenditures when goods or services have been received and payment is due during the year or soon thereafter.

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, 2005 and 2004 (amounts in thousands).

Net Assets as of June 30

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Total current assets	\$ 331,182	\$ 304,654	8.71%
Capital assets, net of accumulated depreciation	6,693,483	6,477,984	3.33%
Other non-current assets	<u>9,137</u>	<u>6,458</u>	41.48%
Total assets	<u>7,033,802</u>	<u>6,789,096</u>	3.60%
Current liabilities	141,643	143,977	(1.62)%
Long term liabilities	<u>546,057</u>	<u>537,570</u>	1.59%
Total liabilities	<u>687,700</u>	<u>681,547</u>	0.90%
Invested in capital assets, net of related debt	6,193,029	5,980,261	3.56%
Unrestricted	<u>153,073</u>	<u>127,288</u>	20.26%
Total net assets	<u>\$ 6,346,102</u>	<u>\$ 6,107,549</u>	3.91%

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

The largest component (97.59%) of the Department's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The Department uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion, unrestricted net assets, may be used at the Department's discretion.

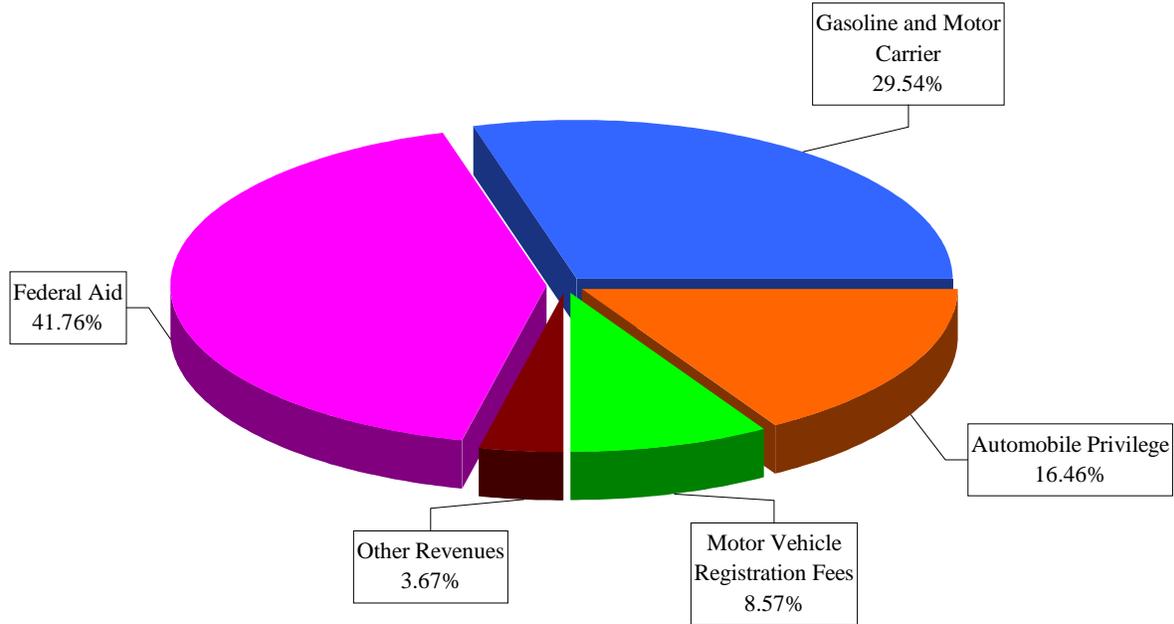
Condensed Statement of Activities

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

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Revenues			
Taxes	\$ 500,308	\$ 477,564	4.76%
Licenses, fees and permits	93,144	84,896	9.72%
Investment and interest income	1,906	1,550	22.97%
Payments from primary government	4,135	4,917	(15.90)%
Miscellaneous revenues	<u>26,257</u>	<u>15,486</u>	69.55%
Total general revenues	<u>625,750</u>	<u>584,413</u>	7.07%
Federal aid	456,070	442,439	3.08%
Charges for service	<u>4,554</u>	<u>4,461</u>	2.08%
Total program revenues	<u>460,624</u>	<u>446,900</u>	3.07%
Total revenues	<u>1,086,374</u>	<u>1,031,313</u>	5.34%
Expenses			
Road maintenance	322,399	302,325	6.64%
Other road operations	382,831	364,645	4.99%
General and administration	90,186	82,130	9.81%
Bond interest and premium	49,660	26,525	87.22%
Unallocated depreciation	<u>2,745</u>	<u>4,124</u>	(33.44)%
Total expenses	<u>847,821</u>	<u>779,749</u>	8.73%
Change in net assets	238,553	251,564	(5.17)%
Net assets, beginning	<u>6,107,549</u>	<u>5,855,985</u>	4.30%
Net assets, ending	<u>\$ 6,346,102</u>	<u>\$ 6,107,549</u>	3.91%

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

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 \$239 million or 3.91% percent. The following chart depicts the revenues of the Department for the fiscal year.



Total revenues increased by approximately \$55 million. Total tax revenues increased by approximately \$22.7 million with the majority of the increase (\$17 million or 74.56%) due to a change in the gasoline tax collection procedures. Federal aid revenue increased by approximately \$15 million or 3.36%. The following summarizes revenues for the years ended June 30, 2005 and June 30, 2004 (amounts in thousands):

	<u>2005</u>	<u>2004</u>	<u>Increase (decrease)</u>	<u>% Increase (decrease)</u>
Gasoline and motor carrier road tax	\$ 320,891	\$ 275,471	\$ 45,420	16.49%
Wholesale motor fuel	-	28,463	(28,463)	(100.00%)
Aviation fuel	654	405	249	61.48%
Industrial access roads	2,351	3,465	(1,114)	(32.15%)
Automobile privilege	178,763	173,225	5,538	3.20%
Motor vehicle registration fees	93,144	84,896	8,248	9.72%
Special fees and permits	4,554	4,461	93	2.08%
Federal aid	453,719	438,974	14,745	3.36%
Investment and interest income	1,906	1,550	356	22.97%
Payments from primary government	4,135	4,917	(782)	(15.90%)
Miscellaneous revenues	26,257	15,486	10,771	69.55%
	<u>\$ 1,086,374</u>	<u>\$ 1,031,313</u>	<u>\$ 55,061</u>	5.34%

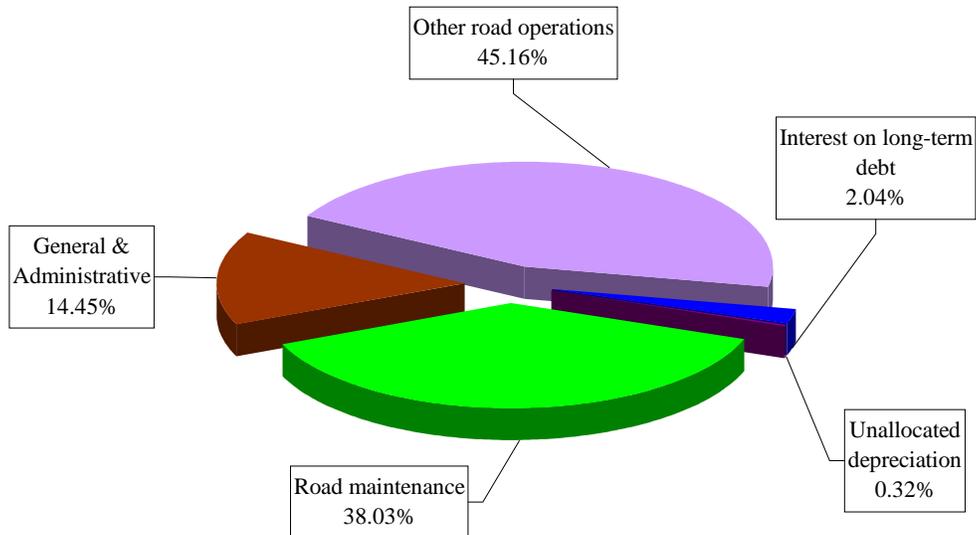
The Department's primary sources of revenue for funding of ongoing administration of the Department, general maintenance and construction of the State Road System and for providing resources to match available Federal funds are derived from fuel taxes, automobile privilege taxes, motor vehicle registration 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, 2005

Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2000 through fiscal year 2005, actual cash revenues exceeded estimates by only 1.18%. While those extra dollars allowed the Department to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the Department to undertake many new projects. In fact, some areas of expenditures were reduced during periods of less than desirable fund equity levels. Revenues are projected to remain relatively flat through fiscal year 2007, while at the same time it is anticipated that nondiscretionary costs will continue to rise. As a consequence, many programs that are operated by the Department will experience little, if any, increase in the foreseeable future and some programs may revert to lower funding levels.

The Department also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Department expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2005 were authorized under the "Transportation Equity Act for the 21st Century" (TEA 21). TEA 21 expired September 2003 and the United States Congress passed a new Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). The impact of SAFETEA-LU on West Virginia is significant, increasing non-discretionary federal funding by nearly 26% over TEA 21 levels.

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



Total expenses increased by approximately \$68 million 8.73%. The following summarizes expenditures for the years ended June 30, 2005 and June 30, 2004 (amounts in thousands):

	<u>2005</u>	<u>2004</u>	<u>Increase (decrease)</u>	<u>% Increase (decrease)</u>
Road maintenance	\$ 322,399	\$ 302,325	\$ 20,074	6.64%
Other road operations	382,831	364,645	18,186	4.99%
General and administration	90,186	82,130	8,056	9.81%
Bond interest and premium	49,660	26,525	23,135	87.22%
Unallocated depreciation	2,745	4,124	(1,379)	(33.44%)
	<u>\$ 847,821</u>	<u>\$ 779,749</u>	<u>\$ 68,072</u>	8.73%

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, 2005

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

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

Discretely Presented Component Units:

The State Rail Authority's operating revenues are not sufficient to provide adequate cash flows to meet regular operating needs. During the year ended June 30, 2005 the cash flows from operations were \$(136) thousand compared to \$(593) thousand in the prior year. The Authority funds capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled \$3.4 million, a decline of \$28 thousand compared to the prior year.

The West Virginia Parkways, Economic Development and Tourism Authority (Parkways) relies on toll revenues, revenues generated through its economic development activities (primarily the Caperton Center) and the operation of travel plaza restaurants and gas stations. Total revenues from these sources increased \$1.6 million or 2.59% for the fiscal year ended June 30, 2005. Operating expenses increased by \$2.2 million or 3.28% for the same period primarily due to increased maintenance costs associated with the harsh winter. The Authority experienced net losses during fiscal years ended June 30, 2005 and 2004 but generated positive cash flows from operating activities in excess of \$28 million in 2005 and \$25 million in 2004.

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, 2005, the Department reported fund balances of \$231 million. Of this total amount, \$198 million, 85.71%, 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 2005 fiscal year, unreserved fund balance of the Fund was \$187 million and reserved fund balance was \$31 million. The total fund balance increased \$24 million during the year primarily due to cost containment measures instituted.

Capital Projects Fund

The Capital Projects Fund balance at the end of fiscal year 2004 was \$15 thousand, which was all in the rebate arbitrage. The rebate arbitrage was closed in fiscal year 2005 which resulted in a zero balance fund at year end.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

State Road Fund and Budgetary Highlights

The Department is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have remained fairly constant over the past several years, any future changes in consumption rates would have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. For five of the previous six years, tax and fee revenue collections increased over the previous year. Tax and fee revenue collections increased by approximately \$8.7 million in 2004: they increased \$33 million during the current year.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005 vs. 2004</u>	
				<u>Change</u>	<u>%Change</u>
Gasoline, motor carrier and wholesale fuel	\$ 296,842	\$ 303,934	\$ 320,891	\$ 16,957	5.58%
Motor vehicle registration	85,880	81,577	93,144	11,567	14.18%
Privilege tax	169,431	173,225	178,763	5,538	3.20%
Other taxes and fees	<u>5,856</u>	<u>7,926</u>	<u>6,905</u>	<u>(1,021)</u>	<u>(12.88%)</u>
	<u>\$ 558,009</u>	<u>\$ 566,662</u>	<u>\$ 599,703</u>	<u>\$ 33,041</u>	<u>5.83%</u>

On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate of 6.5 cents per invoiced gallon as of January 1, 2005.

Automobile privilege tax collections were positively impacted from 2002 through 2005 by low interest rates and significant incentives offered by automobile manufacturers. It is possible that the automobile privilege taxes could decline significantly when these factors no longer exist.

The Department's actual federal revenue for budgetary purposes for fiscal year 2005 was \$413 million, to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, U.S. Monongalia/Fayette Expressway and other major corridors including King Coal Highway, Coalfields Expressway, WV 2, 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 in each of the last three years is summarized below (amounts in thousands):

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005 vs. 2004</u>	
				<u>Change</u>	<u>%Change</u>
Federal reimbursement – budgeted funds	\$ 380,079	\$ 379,564	\$ 428,424	\$ 48,860	12.87%
Federal reimbursement – bond funds	23,129	29,830	-	(29,830)	(100.00%)
Federal reimbursement – emergency funds	<u>4,456</u>	<u>15,253</u>	<u>12,155</u>	<u>(3,098)</u>	<u>(20.31%)</u>
Total federal aid	<u>\$ 407,664</u>	<u>\$ 424,647</u>	<u>\$ 440,579</u>	<u>\$ 15,932</u>	<u>3.75%</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Department's revenue increases are not projected to keep pace with increases in costs related to retirement, health insurance, increased debt service and other increases that are non-discretionary in nature. As a result, the Department will be required to reduce expenditures on programs that are discretionary and expenditures in these areas will be managed to ensure that the Department maintains a positive fund balance. The fiscal 2006 budget reflects a budgeted decrease in fund balance of approximately \$11 million. Management is taking all necessary steps to ensure that the fund balance of the Department is maintained at levels that are adequate to ensure the soundness of the Department and is confident that adequate discretionary items exist to permit the Department to continue to operate in a fiscally sound manner. Under the newly enacted SAFETEA-LU, the Department expects to annually receive an average of \$403 million in federal funding. In order to capture the extra federal aid available, the Department will need an additional \$15 million annually in state matching funds, which will raise the total needed annually from \$86 million to \$101 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2005, the Department had invested \$6.7 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$258 million.

The \$215 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 \$258 million in depreciation. The Department expended \$485 million dollars during the year ended June 30, 2005 for additions to capital assets, including infrastructure. Of this amount, \$453 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 \$289 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County, Corridor D in Wood County, upgrade of WV 10 in Logan County, upgrade of WV 2 in Brooke County, widening of I-77, upgrade of WV route 9 in the Eastern Panhandle, upgrade of US route 35 in Putnam County and continued environmental studies on various projects in process.

Discretely Presented Component Units:

As of June 30, 2005, the discretely presented component units had invested \$581 million, net of accumulated depreciation, in capital assets which primarily consisted of Rail Property, Toll Road infrastructure and the Caperton Center. Depreciation charges for the fiscal year totaled \$31 million. Capital assets declined by approximately 2.04% as \$19 million in capital improvements were offset by the current years depreciation.

Long-term Debt

Primary Government:

The Department has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2005 the Department had \$468 million in outstanding bonds. The amount outstanding decreased by \$26 million (5.36%) due to net principal payments. In 2005, approximately \$320 million of Safe Road Bonds were refinanced as an advance refunding. 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

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

Issue	Status of insurance	Bond Rating		Amount (in thousands)
Better Highways 73 - All Bonds maturing on or before February 1, 2006	Not insured	Fitch:	AA-	\$ 1,480
		Moody's:	Aa3	
		S&P:	AA-	
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch:	AAA	63,935
		Moody's:	Aaa	
		S&P:	AAA	
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch:	AA-	8,550
		Moody's:	Aa3	
		S&P:	AA-	
Safe Roads 01A - All Bonds maturing on or before June 1, 2005 to 2013	Insured by FSA	Fitch:	AAA	76,390
		Moody's:	Aaa	
		S&P:	AAA	
Safe Roads 05A - Bonds maturing on or before June 1, 2025	Not Insured	Fitch:	AAA	2,045
		Moody's:	Aaa	
		S&P:	AAA	
Safe Roads 05A - Bonds maturing on or before June 1, 2025	Insured by FSA	Fitch:	AAA	315,515
		Moody's:	Aaa	
		S&P:	AAA	
				\$ 467,915

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

Discretely Presented Component Units:

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

The amount of Parkways' outstanding debt is approximately \$5 million less at June 30, 2005 than it was in 2004. 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.

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET ASSETS
JUNE 30, 2005
(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	\$ 168,212	\$ 3,563	\$ 1,831
Short term investments	-	20,358	-
Accounts receivable, net	64,085	1,270	39
Taxes receivable	62,609	-	-
Accrued interest receivable	-	303	-
Due from other State of West Virginia agencies	958	-	407
Inventories	32,669	2,148	71
Other assets	2,649	392	14
Total current assets	331,182	28,034	2,362
Non-current assets			
Capital assets, net of accumulated depreciation			
Land - non-infrastructure	15,610	53,247	4,836
Land improvements	4,005	-	-
Buildings	61,553	57,079	-
Buildings - construction in progress	4,936	-	-
Furniture and fixtures	598	-	161
Rolling stock	52,528	2,339	433
Scientific equipment	613	-	-
Shop equipment	109	-	-
Roads	3,666,488	-	-
Bridges	1,162,881	-	-
Land - infrastructure	771,447	-	-
Toll road	-	434,254	-
Rail property	-	-	28,947
Work in progress	952,715	-	-
Total capital assets	6,693,483	546,919	34,377
Non-current investments	-	15,460	-
Non current taxes receivable	6,371	-	-
Other non-current assets	2,766	2,125	-
Total assets	7,033,802	592,538	36,739
LIABILITIES			
Current liabilities			
Accounts payable	60,161	842	581
Retainages payable	10,978	-	-
Accrued payroll and related liabilities	16,970	6,511	155
Due to other State of West Virginia agencies	4,619	7	-
Due to other States IRP	3,410	-	-
Accrued interest payable	1,924	801	-
Deferred revenue	513	-	-
Current maturities of long term obligations	43,068	3,047	387
Total current liabilities	141,643	11,208	1,123
Non-current liabilities			
Claims and judgments	5,800	-	-
Compensated absences	62,249	3,044	119
Long-term debt obligations	478,008	102,051	837
Total non-current liabilities	546,057	105,095	956
Total liabilities	687,700	116,303	2,079
NET ASSETS			
Invested in capital assets, net of related debt	6,193,029	441,961	33,153
Restricted	10,843	24,688	-
Unrestricted	142,230	9,586	1,507
Total net assets	\$ 6,346,102	\$ 476,235	\$ 34,660

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(amounts expressed in thousands)

Functions/Programs	Primary Government			Net Revenue (Expenses) and Changes in Net Assets	Component Units
	Expenses	Charges for Services	Capital Grants and Contributions		
Primary Government					
Government activities					
Road maintenance					
Expressway, trunkline & feeder & SLS	\$ 247,711	\$ -	\$ -	\$ (247,711)	\$ -
Contract paving & secondary roads	46,090	-	-	(46,090)	-
Small bridge repair & replacement	12,559	-	-	(12,559)	-
Litter control program	1,688	-	-	(1,688)	-
Depreciation	14,351	-	-	(14,351)	-
Other road operations					
Interstate highways	16,662	-	64,114	47,452	-
Appalachian highways	462	-	101,247	100,785	-
Other federal aid programs	116,383	-	288,358	171,975	-
Non federal aid improvements	6,356	-	-	(6,356)	-
Industrial access roads	1,822	-	2,351	529	-
Depreciation	241,146	-	-	(241,146)	-
General and administration					
Support and administrative operations	58,146	4,554	-	(53,592)	-
Claims	(2,504)	-	-	2,504	-
Costs associated with DMV	34,544	-	-	(34,544)	-
Bond interest and premium	49,660	-	-	(49,660)	-
Unallocated depreciation	2,745	-	-	(2,745)	-
Total primary government	\$ 847,821	\$ 4,554	\$ 456,070	(387,197)	-
Component units					
Parkways, Economic Development and Tourism Authority	\$ 75,277	\$ 64,910	\$ -	-	(10,367)
State Rail Authority	3,760	2,281	-	-	(1,479)
Total component units	\$ 79,037	\$ 67,191	\$ -	-	(11,846)
General revenues					
Taxes:					
Gasoline and motor carrier				320,891	-
Aviation fuel				654	-
Automobile privilege				178,763	-
Motor vehicle registration fees				93,144	-
Investment and interest income				1,906	1,311
Gain (loss) on sale of capital assets				-	(123)
Payments from primary government				4,135	3,358
Miscellaneous revenues				26,257	-
Total general revenues				625,750	4,546
Change in net assets				238,553	(7,300)
Net assets, beginning				6,107,549	526,031
Net assets, ending				\$ 6,346,102	\$ 518,731

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - GOVERNMENTAL FUNDS

18

JUNE 30, 2005

(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	\$ 150,187	\$ 18,025	\$ 168,212
Receivables	63,282	803	64,085
Taxes receivable	59,024	65	59,089
Due from other State of West Virginia agencies	958	-	958
Due from other funds	2,665	-	2,665
Inventories	31,459	1,210	32,669
Other assets	2,499	150	2,649
	<u>\$ 310,074</u>	<u>\$ 20,253</u>	<u>\$ 330,327</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 59,566	\$ 595	\$ 60,161
Retainages payable	10,978	-	10,978
Accrued payroll and related liabilities	16,749	221	16,970
Due to other State of West Virginia agencies	4,521	106	4,627
Due to other states	-	3,410	3,410
Deferred revenue	-	513	513
Due to other funds	-	2,657	2,657
	<u>91,814</u>	<u>7,502</u>	<u>99,316</u>
Fund balances			
Reserved for inventories	31,459	1,210	32,669
Unreserved, undesignated reported in special revenue fund	186,801	11,541	198,342
	<u>218,260</u>	<u>12,751</u>	<u>231,011</u>
Total fund balances			
	<u>\$ 310,074</u>	<u>\$ 20,253</u>	<u>\$ 330,327</u>
Total liabilities and fund balances			
	<u>\$ 310,074</u>	<u>\$ 20,253</u>	<u>\$ 330,327</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(amounts expressed in thousands)

Total fund balances - governmental funds \$ 231,011

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. 9,891

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

Land - non infrastructure	\$	15,610	
Land improvements- non infrastructure		4,005	
Buildings		61,553	
Buildings - construction in progress		4,936	
Furniture and Fixtures		598	
Rolling Stock		52,528	
Scientific Equipment		613	
Shop Equipment		109	
Roads		3,666,488	
Bridges		1,162,881	
Infrastructure Land		771,447	
Work in process		952,715	6,693,483

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. 2,766

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

Accrued interest payable	(1,924)		
Claims and judgments	(6,197)		
Compensated absences	(82,927)		
Long-term debt obligations	(500,001)		(591,049)

Net assets of governmental activities \$ 6,346,102

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	\$ 320,891	\$ -	\$ -	\$ 320,891
Aviation fuel	-	-	654	654
Automobile privilege	178,763	-	-	178,763
Industrial access	2,351	-	-	2,351
License, fees and permits				
Motor vehicle registrations and licenses	86,466	-	6,678	93,144
Special fees and permits	4,554	-	-	4,554
Federal aid	440,579	-	13,140	453,719
Investment and interest income, net of arbitrage rebate	1,906	-	-	1,906
Payments from primary government	-	-	4,135	4,135
Miscellaneous revenues	25,589	-	668	26,257
	<u>1,061,099</u>	<u>-</u>	<u>25,275</u>	<u>1,086,374</u>
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder, state and	247,456	-	-	247,456
Contract paving and secondary roads	46,090	-	-	46,090
Small bridge repair and replacement	18,699	-	-	18,699
Litter control program	1,688	-	-	1,688
Support and administrative operations	56,242	-	24,073	80,315
Division of Motor Vehicles operations	34,544	-	-	34,544
Claims	416	-	-	416
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	75,030	-	-	75,030
Appalachian highways	125,231	-	-	125,231
Other federal aid programs	350,464	-	-	350,464
Nonfederal aid improvements	31,725	-	-	31,725
Industrial access road	1,822	-	-	1,822
Debt service				
Principal	28,060	-	-	28,060
Interest	17,335	-	-	17,335
Bond issuance cost	1,606	-	-	1,606
	<u>1,036,408</u>	<u>-</u>	<u>24,073</u>	<u>1,060,481</u>
Excess (deficiency) of revenues over expenditures	<u>24,691</u>	<u>-</u>	<u>1,202</u>	<u>25,893</u>
Other financing sources (uses)				
Transfers in	15	-	-	15
Transfers out	-	(15)	-	(15)
Refunding bonds issued	321,405	-	-	321,405
Payment to refunded bond escrow agent	(321,405)	-	-	(321,405)
Total other financing sources (uses)	<u>15</u>	<u>(15)</u>	<u>-</u>	<u>-</u>
Fund balances, beginning of year	<u>193,554</u>	<u>15</u>	<u>11,549</u>	<u>205,118</u>
Fund balances, end of year	<u>\$ 218,260</u>	<u>\$ -</u>	<u>\$ 12,751</u>	<u>\$ 231,011</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$ 25,893
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 \$483,286 exceeded depreciation of (\$258,242) in the current period.	225,044
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.	(9,541)
Repayment of bond principal is an expenditure to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is net of the advance refunding.	26,515
Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year.	2,192
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the increase in compensated absences of (\$5,295), reduction of claims of \$2,919, amortization of bond issuance costs of (\$1,695), exceeded accretion of bond premiums of \$695, debt issue costs on new bond issue of \$1,605, premium on new bond issue of (\$30,000), and decrease in interest payable of \$221.	<u>(31,550)</u>
Change in net assets of governmental activities	<u>\$ 238,553</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
YEAR ENDED JUNE 30, 2005

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Motor fuel excise tax	\$ 310,500	\$ 1,200	\$ 311,700	\$ 311,625	\$ (75)
Automobile privilege	180,083	(483)	179,600	179,935	335
Motor vehicle registrations and licenses	87,500	(1,746)	85,754	88,074	2,320
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(2,425)	575
Federal aid	474,040	460	474,500	413,189	(61,311)
Miscellaneous revenues	8,120	-	8,120	9,178	1,058
	<u>1,057,243</u>	<u>(569)</u>	<u>1,056,674</u>	<u>999,576</u>	<u>(57,098)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	70,000	-	70,000	67,758	2,242
Appalachian highways	200,000	(40,000)	160,000	121,130	38,870
Other federal aid programs	300,700	40,000	340,700	309,241	31,459
Nonfederal aid construction	25,000	15,000	40,000	33,317	6,683
Road maintenance					
Maintenance	249,700	-	249,700	246,968	2,732
Contract paving and secondary roads	50,000	-	50,000	48,994	1,006
Small bridge repair and replacement	30,000	(10,000)	20,000	17,367	2,633
Litter control program	1,775	(87)	1,688	1,688	-
Support and administrative operations					
General operations	46,500	(1,500)	45,000	30,888	14,112
Equipment revolving	15,000	-	15,000	13,573	1,427
Inventory revolving	2,000	-	2,000	(2,132)	4,132
Debt service	50,000	-	50,000	46,599	3,401
PSC Weight Enforcement	4,566	-	4,566	4,036	530
Division of Motor Vehicles operations	38,994	-	38,994	35,657	3,337
Waste tire	3,625	-	3,625	453	3,172
Claims - DOH and DMV	434	-	434	433	1
	<u>1,088,294</u>	<u>3,413</u>	<u>1,091,707</u>	<u>975,970</u>	<u>115,737</u>
Excess (deficiency) of revenues over expenditures	(31,051)	(3,982)	(35,033)	23,606	58,639
Fund balance, beginning of year	<u>110,961</u>	<u>-</u>	<u>110,961</u>	<u>110,961</u>	<u>-</u>
Fund balance, end of year	<u>\$ 79,910</u>	<u>\$ (3,982)</u>	<u>\$ 75,928</u>	<u>\$ 134,567</u>	<u>\$ 58,639</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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 combined financial statements include the financial data of the Department's two component units. These units are reported in separate columns to emphasize that they are legally separate from the Department. Separately issued independent audit reports for each of the discretely presented component units may be obtained from West Virginia Department of Transportation, Division of Highways, Finance Section, Building 5, Room A-220, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0430 or from the respective component units at the addresses presented below.

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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 \$10,843 restricted assets, of which \$10,843 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, 2005
(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 an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2005, has been reported only in the government-wide financial statements.
- Department employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Department, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, an employee may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's post employment health care insurance premium or to increase service credits for retirement purposes. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.
- The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. The liability for accumulated post-retirement health insurance has been reported only in the government-wide financial statements.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

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

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

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

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The Department's State Road Fund (Special Revenue Fund), 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, 2005, on the budgetary basis to the GAAP basis for the State Road Fund follows:

Excess (deficiency) of revenues over expenditures - budgetary basis	\$ 23,606
Basis of accounting differences (budgetary to GAAP)	(5,866)
Unbudgeted funds	<u>6,951</u>
Excess of revenues over expenditures - GAAP basis.	<u>\$ 24,691</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Except for Parkways, cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). Interest income from these investments is prorated to the Department at rates specified by the IMB based on the balance of the Department's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Deposits are available with overnight notice to the IMB.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Parkways 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 fixed assets are recorded at their fair market value at the date of donation.

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Machinery and Equipment: 5 - 20 years
- Buildings: 30-40 years
- Furniture and Fixtures: 3 - 20 years
- Rolling stock: 1 - 20 years
- Scientific equipment: 2 - 25 years
- Infrastructure: Roads - 30 years
- Infrastructure: Bridges - 50 years
- Toll Road Infrastructure: 10-50 years
- Rail property: 3-35 years

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

OTHER ASSETS - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements. They are comprised primarily of amounts on deposit with West Virginia Workers' Compensation Fund.

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

COMPENSATED ABSENCES - Department employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-retirement health insurance as a liability.

POST EMPLOYMENT BENEFITS - The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Department's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the post retirement benefits. Expenditures for post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-retirement health insurance as a liability.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

PREMIUMS, DISCOUNTS AND ISSUANCE COSTS - In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental activities. Where material, bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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, 2005
(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 Investment Management Board (IMB) and cash on hand. The composition of cash and cash equivalents were as follows at June 30:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Cash on deposit with State Treasurer	\$ 48,386	\$ 48,386
Cash on deposit with State Treasurer invested in IMB cash liquidity pool	116,950	116,950
Cash in transit	248	248
Cash on hand	<u>2,628</u>	<u>2,628</u>
	<u>\$ 168,212</u>	<u>\$ 168,212</u>

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 IMB policies and procedures.

Cash Liquidity Pool

Credit Risk

The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the credit ratings of the Cash Liquidity pool's investments:

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percentage of Assets</u>
Commercial paper	P1	A-1	\$ 598,241	37.9%
U.S. Treasury bills	Aaa	AAA	259,398	16.4%
Corporate notes	Aaa	AAA	155,559	9.9%
Certificates of deposit	P1	A-1	152,999	9.7%
Agency bonds	Aaa	AAA	147,956	9.4%
Agency discount notes	P1	A-1	119,564	7.6%
Money market funds	Aaa	AAA	<u>4,241</u>	<u>0.3%</u>
Total rated investments			<u>\$ 1,437,958</u>	<u>91.2%</u>

The entity's ownership represents 8.13% of these amounts held by the IMB.

Unrated securities include repurchase agreements of \$141,050. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

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

Concentration of credit risk

West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private organization that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Cash Liquidity pool:

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM</u>
Commercial paper	\$ 598,241	49
U.S. Treasury bills	259,398	30
Corporate notes	155,559	53
Certificates of deposit	152,999	42
Agency bonds	147,956	88
Repurchase agreements	141,050	1
Agency discount notes	119,564	52
Money market funds	<u>4,241</u>	1
Total assets	<u>\$ 1,579,008</u>	45

Foreign currency risk

The Cash Liquidity pool has 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 IMB. These funds are subject to the IMB cash liquidity pool policies and procedures above. The State Rail Authority ownership represents .089% of these amounts held by the IMB. The carrying amount of these deposits do not differ materially from the bank balance at June 30.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

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

Investments for Debt Service Repayment

The State Rail Authority also maintains certain restricted cash deposits which are subject to the terms of a loan agreement and bond covenants. These restricted funds are invested in a U.S. Government securities money market mutual fund. The following summarizes the policies and procedures for these funds.

Credit Risk

The West Virginia State Rail Authority limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the bond trust indenture that investments be rated AA or higher. At June 30, 2005 these funds were invested with J.P. Morgan Investment Management Inc. in the JPMorgan 100% U.S. Treasury Securities Money Market Fund. This Fund invests only in obligations of the U.S. Treasury, including Treasury bills, bonds, and notes. The Fund does not buy securities issued or guaranteed by agencies of the U.S. government. The following table provides information on the credit ratings of this investment.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
U.S. Government securities money market mutual fund	Aaa	AAAm-G	\$549,737	100%

Concentration of credit risk

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

Custodial credit risk

Custodial credit risk is the risk that in the event of a failure of the counter party, the State Rail Authority will not be able to recover the value of the investment that is in the possession of an outside party. The State Rail Authority does not have a policy for custodial credit risk. As of June 30, 2005, \$549,737 of the State Rail Authority's investment was invested in obligations of the U.S. Treasury.

Interest rate risk

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

<u>Security Type</u>	<u>Carrying Value</u>	Investment Maturity in Years			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Government securities money market mutual fund	\$549,737	\$549,737	-	-	-

Foreign Currency Risk

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

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

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

Interest Rate Risk - Investments

As of June 30, 2005, 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>
Mutual bond funds	\$ 4,727	\$ 4,727	\$ -	\$ -
U.S. Treasury Obligations	100	100	-	-
Government agency bonds	26,020	4,502	20,594	924
State government bonds	1,105	502	398	205
Corporate bonds	3,866	-	3,046	820
Repurchase agreements	<u>3,040</u>	<u>-</u>	<u>-</u>	<u>3,040</u>
	<u>\$ 38,858</u>	<u>\$ 9,831</u>	<u>\$ 24,038</u>	<u>\$ 4,989</u>

Concentration of Credit Risk - Investments

As of June 30, 2005, 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	42%
	Federal Home Loan Mortgage Corp.	9%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were \$523 at June 30, 2005. These deposits, which had a bank balance of \$473, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in Parkways' name by its agent.

Credit Risk - Investments

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

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>
Mutual bond funds	AAA	Aaa	AAAm	\$ 4,727
Government agency bonds	AAA	Aaa	AAA	26,020
State government bonds	AAA	Aaa	AAA	1,105
Corporate bonds	AAA	Aaa	AAA	<u>3,866</u>
				<u>\$ 35,718</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

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

Unrated securities included U.S. Treasury obligations of \$100 and a repurchase agreement of \$3,040. Acceptable collateral for the repurchase agreements include United States Treasury and government agency securities equal to 105% of the carrying value, all of which carry the highest credit rating.

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

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Parkways will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, 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	\$ 523
Total other investments	<u>38,858</u>
	<u>\$ 39,381</u>
As reported on the Statement of Net Assets:	
Cash and cash equivalents	\$ 3,563
Short-term investments	20,358
Non-current investments	<u>15,460</u>
	<u>\$ 39,381</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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, 2005, among the following restricted accounts created under the various Trust Indentures or by the adoption of Authority resolution:

	<u>2005</u>
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1989, 1993, 2002, and 2003 Reserves	\$ 10,922
Series 1989 and 1993 Debt Service	842
Renewal and Replacement	4,151
Operating and Maintenance	4,012
Series 2001 Debt Service	112
Series 2002 Debt Service	831
Series 2003 Debt Service	777
Insurance Liability	1,000
Facility Improvement	405
Economic Development and Tourism	<u>3,783</u>
	26,835
Reserve Revenue, restricted by Tri-Party Agreement	10,659
Highway/Bridge Contingency, restricted by Tri-Party Agreement	1,000
Unredeemed coupons	<u>228</u>
Total restricted and designated assets	<u>\$ 38,722</u>

The assets restricted by the 1989, 1993, 2002, and 2003 Trust Indentures must be used for construction, turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1989, 1993, 2002, and 2003 Reserve Account equal maximum annual debt service for all bonds. The balance in the 1989, 1993, 2002, and 2003 Debt Service Accounts are required by the Trust Indentures to have a balance equal to accrued debt service for the current year plus one-twelfth of the debt service which will accrue in the next succeeding fiscal year. The Trust Indentures also require that a reserve be established for Renewal and Replacement that equals the consulting engineer's recommendations for the year. The Operations and Maintenance Account is required by the Trust Indentures to maintain a balance equal to one-eighth of budgeted operating expenses for the fiscal year.

The Series 1994 Trust Indenture, as amended by a Supplemental Trust Indenture dated November 1, 1996, required that approximately \$320 of bond proceeds be deposited in the Debt Service Reserve account equal to the maximum annual debt service on the Series 1994 bonds. The 1994 and 1996 Trust Indentures also required the establishment of Bond Funds, comprised of the principal and interest debt service accounts, which must be maintained at a balance at least equal to one-sixth of the interest payable and one-twelfth of the principal due on June 1, 2001, related to the Series 1994 and 1996 Bonds. The Series 1994 and 1996 were defeased during the year ended June 30, 2002, by the issuance of the Series 2001A bonds.

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

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

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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 Reserve Revenue Account, restricted by the Tri-Party Agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and Parkways, can only be used for maintenance and operation of the Turnpike and for debt service.

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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2005 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Federal aid billed and not paid	\$ 4,448	\$ -
Federal aid earned but not billed	<u>53,118</u>	<u>-</u>
Total federal aid receivable	57,566	-
Other receivables	<u>8,169</u>	<u>1,359</u>
Combined total receivables	65,735	1,359
Less: allowance for uncollectibles	<u>(1,650)</u>	<u>(50)</u>
 Net accounts receivable	 <u>\$ 64,085</u>	 <u>\$ 1,309</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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 4 - TAXES RECEIVABLE

Taxes receivable at June 30, 2005 consisted of the following:

Automobile privilege taxes	\$	36,890
Gasoline and motor fuel taxes		29,890
Registration fees		2,135
Aviation fuel		<u>65</u>
		68,980
Less: Long-term portion		<u>(6,371)</u>
Current taxes receivable	\$	<u>62,609</u>

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end \$6,371 is not expected to be collected within one year and is classified as a long term receivable.

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

Amounts due from other State of West Virginia agencies at June 30, 2005 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
The Department of Administration	\$ 209	\$ -
Board of Education	403	-
West Virginia State Police	128	-
Other Agencies	<u>218</u>	<u>407</u>
	<u>\$ 958</u>	<u>\$ 407</u>

Amounts due to other State of West Virginia agencies at June 30, 2005 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Public Employees Insurance Agency	\$ 1,267	\$ -
Public Employees Retirement	1,054	-
Bureau of Employment Programs	2,051	-
Other Agencies	<u>247</u>	<u>7</u>
	<u>\$ 4,619</u>	<u>\$ 7</u>

NOTE 6 - INVENTORIES

Inventories at June 30, 2005 consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Materials and supplies	\$ 22,373	\$ 2,219
Equipment repair parts	8,228	-
Gas and lubrication supplies	<u>2,068</u>	<u>-</u>
	<u>\$ 32,669</u>	<u>\$ 2,219</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS

Governmental Activities:

Capital asset activity for Governmental Activities for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land - non infrastructure	\$ 14,948	\$ 662	\$ -	\$ 15,610
Land - infrastructure	725,025	46,422	-	771,447
Building - construction in progress	11,049	2,747	8,860	4,936
Construction-in-progress - roads	608,142	227,995	163,436	672,701
Construction-in-progress - bridges	<u>231,351</u>	<u>178,125</u>	<u>129,462</u>	<u>280,014</u>
Total capital assets not being depreciated	<u>1,590,515</u>	<u>455,951</u>	<u>301,758</u>	<u>1,744,708</u>
Capital assets being depreciated:				
Buildings	79,633	11,690	289	91,034
Furniture and fixtures	9,614	49	983	8,680
Land improvements - non infrastructure	5,196	534	-	5,730
Rolling stock	177,184	19,012	13,890	182,306
Shop equipment	3,040	-	-	3,040
Scientific equipment	2,103	121	-	2,224
Infrastructure - roads	6,324,284	164,033	-	6,488,317
Infrastructure - bridges	<u>1,301,960</u>	<u>124,793</u>	<u>-</u>	<u>1,426,753</u>
Total capital assets being depreciated	<u>7,903,014</u>	<u>320,232</u>	<u>15,162</u>	<u>8,208,084</u>
Less accumulated depreciation:				
Buildings and improvements	27,515	2,246	280	29,481
Furniture and fixtures	8,681	239	838	8,082
Land improvements - non infrastructure	1,465	260	-	1,725
Rolling stock	128,915	14,223	13,360	129,778
Shop equipment	2,893	38	-	2,931
Scientific equipment	1,521	90	-	1,611
Infrastructure - roads	2,608,336	213,493	-	2,821,829
Infrastructure - bridges	<u>236,219</u>	<u>27,653</u>	<u>-</u>	<u>263,872</u>
Total accumulated depreciation	<u>3,015,545</u>	<u>258,242</u>	<u>14,478</u>	<u>3,259,309</u>
Total capital assets being depreciated, net	<u>4,887,469</u>	<u>61,990</u>	<u>684</u>	<u>4,948,775</u>
Governmental activities capital assets, net	<u>\$ 6,477,984</u>	<u>\$ 517,941</u>	<u>\$ 302,442</u>	<u>\$ 6,693,483</u>

Current year depreciation totaling \$258,242 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Department.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(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	\$ 2,246
Furniture and fixtures	239
Land improvements	<u>260</u>
Total unallocated	<u>2,745</u>
Rolling stock	14,223
Shop equipment	38
Scientific equipment	<u>90</u>
Total road maintenance	<u>14,351</u>
Infrastructure – roads	213,493
Infrastructure - bridges	<u>27,653</u>
Total other road operations	<u>241,146</u>
Total depreciation expense	<u>\$ 258,242</u>

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land - infrastructure	\$ 53,247	\$ -	\$ -	\$ 53,247
Land - non infrastructure	<u>4,836</u>	<u>-</u>	<u>-</u>	<u>4,836</u>
Total capital assets not being depreciated	<u>58,083</u>	<u>-</u>	<u>-</u>	<u>58,083</u>
Capital assets being depreciated:				
Buildings	95,331	503	-	95,834
Furniture and fixtures	456	9	14	451
Rolling stock	8,062	1,212	909	8,365
Infrastructure - toll road	753,640	15,425	109	768,956
Infrastructure - rail property	<u>37,626</u>	<u>2,039</u>	<u>336</u>	<u>39,329</u>
Total capital assets being depreciated	<u>895,115</u>	<u>19,188</u>	<u>1,368</u>	<u>912,935</u>
Less accumulated depreciation:				
Buildings and improvements	35,293	3,462	-	38,755
Furniture and fixtures	292	12	14	290
Rolling stock	5,997	505	909	5,593
Infrastructure -toll road	308,829	25,873	-	334,702
Infrastructure - rail property	<u>9,403</u>	<u>1,096</u>	<u>117</u>	<u>10,382</u>
Total accumulated depreciation	<u>359,814</u>	<u>30,948</u>	<u>1,040</u>	<u>389,722</u>
Total capital assets being depreciated, net	<u>535,301</u>	<u>(11,760)</u>	<u>328</u>	<u>523,213</u>
Governmental activities capital assets, net	<u>\$ 593,384</u>	<u>\$ (11,760)</u>	<u>\$ 328</u>	<u>\$ 581,296</u>

Current year depreciation totaled \$30,948.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 8 - RETAINAGES PAYABLE

The Department has entered into an arrangement with the West Virginia Investment Management Board whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Department. At June 30, 2005, retainages payable on contracts had been reduced to these amounts on deposit in such accounts by approximately \$1,749.

NOTE 9 - LONG-TERM OBLIGATIONS

Governmental Activities:

Long-term obligations at June 30, 2005, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Better highway bonds	1973	5.625%-6.10%	02/01/2006	\$ 5,090	\$ -	\$ 3,610	\$ 1,480
Safe road bonds	1998	4.30%-5.25%	06/01/2023	192,660	-	128,725	63,935
Safe road bonds	1999	4.30%-5.75%	06/01/2017	101,445	-	92,895	8,550
Safe road bonds	2000	5.50%-5.75%	06/01/2025	110,000	-	110,000	-
Safe road bonds	2001	3.50%-5.50%	06/01/2013	85,235	-	8,845	76,390
Safe road bonds	2005	3.00%-5.00%	06/01/2025	-	321,405	3,845	317,560
Total general obligation bonds				494,430	321,405	347,920	467,915
Bond premium				2,781	30,000	695	32,086
Total general obligation bonds payable net of premium				497,211	351,405	348,615	500,001
Claims and judgments				9,116	-	2,919	6,197
Compensated absences				77,633	6,306	1,012	82,927
Total long-term obligations				\$ 583,960	\$ 357,711	\$ 352,546	\$ 589,125

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments require that debt service on the bonds be paid from the Safe Road Fund and, to the extent that there are insufficient funds therein, from a levy of an annual state tax. All bonds authorized under prior constitutional amendments have been issued and include amounts outstanding above.

Debt service expenditures for debt service funds included interest of \$17,330 for the year ended June 30, 2005. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and liquidated through debt service funds, are as follows:

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG TERM OBLIGATIONS (Continued)

	2006	2007	2008	2009	2010	2011- 2015	2016- 2020	2021- 2025	Total
General obligation bonds payable from tax revenue:									
Better highway bonds	\$ 1,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,567
Safe road bonds	<u>41,439</u>	<u>40,380</u>	<u>49,993</u>	<u>49,996</u>	<u>49,995</u>	<u>212,560</u>	<u>131,045</u>	<u>117,577</u>	<u>692,985</u>
Total general obligation bonds	43,006	40,380	49,993	49,996	49,995	212,560	131,045	117,577	694,552
Less: interest	<u>23,086</u>	<u>22,230</u>	<u>21,338</u>	<u>19,911</u>	<u>18,405</u>	<u>68,370</u>	<u>37,740</u>	<u>15,557</u>	<u>226,637</u>
Total principal	19,920	18,150	28,655	30,085	31,590	144,190	93,305	102,020	467,915
Bond premium	<u>2,073</u>	<u>2,002</u>	<u>1,941</u>	<u>1,886</u>	<u>1,633</u>	<u>7,613</u>	<u>7,469</u>	<u>7,469</u>	<u>32,086</u>
Total principal and bond premium	<u>\$ 21,993</u>	<u>\$ 20,152</u>	<u>\$ 30,596</u>	<u>\$ 31,971</u>	<u>\$ 33,223</u>	<u>\$ 151,803</u>	<u>\$ 100,774</u>	<u>\$ 109,489</u>	<u>\$ 500,001</u>

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

	Compensated <u>Absences</u>	Claims and <u>Judgments</u>	General Obligation Bonds and <u>Premium</u>	<u>Total</u>
Short-term liability	\$ 20,678	\$ 397	\$ 21,993	\$ 43,068
Long-term liability	<u>62,249</u>	<u>5,800</u>	<u>478,008</u>	<u>546,057</u>
	<u>\$ 82,927</u>	<u>\$ 6,197</u>	<u>\$ 500,001</u>	<u>\$ 589,125</u>

During the year ended June 30, 1972, the State was authorized by constitutional amendment to issue \$500,000 of general obligation bonds to fund highway and road construction projects known as Better Highway Bonds. During the year ended June 30, 1997, the State was authorized by constitutional amendment to issue \$550,000 of general obligation bonds to fund highway and road construction projects known as Safe Road Bonds. These bonds will be repaid from revenues of the State Road Fund. Safe Road Bonds of \$220,000 were issued during July 1998; \$110,000 were issued during July 1999; \$110,000 were issued during July 2000; and an additional \$110,000 were issued during July 2001.

In 2005, the Department 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 statements 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, 2005
(amounts expressed in thousands)

NOTE 9 - LONG TERM OBLIGATIONS (Continued)

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

	<u>Year Ended</u> <u>June 30, 2005</u>	<u>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
Estimated claims liability, July 1	\$ 8,700	\$ 6,961	\$ 5,095
Additions for claims incurred during the year	1,200	3,346	3,246
Changes in estimates for claims of prior periods	(3,287)	(845)	(785)
Payments on claims	<u>(416)</u>	<u>(762)</u>	<u>(595)</u>
Estimated claims liability, June 30	<u>\$ 6,197</u>	<u>\$ 8,700</u>	<u>\$ 6,961</u>

At June 30, 2005, approximately \$32,487 of tort claims and \$3,346 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 \$6,197, 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 \$397. During the normal course of operations, the Department may become subject to other litigation. Accordingly, no provision has been made in the financial statements for liabilities, if any, from such litigation.

The Department's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Department's unfunded obligation of approximately \$6,241 arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees. These liabilities are generally liquidated by the State Road Fund and other governmental funds.

Discretely Presented Component Units:

State Rail Authority - Long-term debt of the State Rail Authority consisted of notes payable to the County Commissions of Hardy County and Hampshire County, West Virginia amounting to \$837 as of June 30, 2005. These notes are payable in monthly installments of approximately \$38, including interest ranging from 6.7% to 7.4%, with the final payment due July 2007.

Long-term obligations at June 30, 2005, and changes for the fiscal year then ended are as follows:

Notes payable at June 30, 2004	\$ 1,585
Less principal retirements	(345)
Less amortization of premium	<u>(17)</u>
Notes payable at June 30, 2005	1,223
Less current portion	<u>(386)</u>
	<u>\$ 837</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

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

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 370	\$ 87	\$ 457
2007	395	60	455
2008	<u>425</u>	<u>32</u>	<u>457</u>
	1,190	179	1,369
Premium	33	-	33
Amortization of premium	<u>-</u>	<u>(33)</u>	<u>(33)</u>
	<u>\$ 1,223</u>	<u>\$ 146</u>	<u>\$ 1,369</u>

Parkways - Revenue bonds payable consisted of the following at June 30, 2005:

Series 1993 Premium Capital Appreciation Bonds, issued March 1993, \$981 at 23%, due in varying installments totaling \$14,417, including accumulated appreciation (see below), from May 2003 through May 2007	\$ 391
Series 2001A Taxable Serial Bonds, issued \$5,695 in December 2001 at 4.75% to 7.00%, due in varying installments from June 2002 through June 2011	3,895
Series 2001B Bonds, issued serial bonds of \$1,505 in December 2001, at 3.50% to 5.00%, due in varying installments from June 2002 through 2011	1,060
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	36,805
Series 2003 Variable Rate Demand Revenue Refunding Bonds, \$63,900 at variable rates, due in varying installments through May 2019	<u>63,500</u>
Total revenue bonds payable	110,046
Add:	
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	8,874
Less:	
Unamortized deferred loss on advance refunding	(12,184)
Unamortized discount and issuance costs	(1,638)
Current portion of revenue bonds payable	<u>(3,047)</u>
	<u>\$ 102,051</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

In 1993, Parkways issued \$118,781 of Revenue Refunding Bonds for the express purpose of defeasing \$111,245 of 1989 Series Bonds, all of which are no longer outstanding. The advance refunding resulted in a \$14,350 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$89 in 2005. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost \$7,400 over a 26-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,200.

The outstanding 1993 Revenue Refunding Bonds were comprised of premium capital appreciation bonds as of June 30, 2005.

Interest on the Series 1993 Capital Appreciation Bonds is compounded on May 15 and November 15 of each year and will be payable at maturity of such bonds.

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

In 2002, \$5,695 of Raleigh County, West Virginia, Taxable Commercial Development Revenue Refunding Bonds, Series 2001A and \$5,900 of Commercial Development Revenue Bonds, Series 2001B (the Series 2001 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the issuer), and a Trust Indenture, dated December 1, 2001 (the Indenture). The bond proceeds of the Series 2001A were used to advance refund \$1,735 of the Series 1994 Bonds and \$4,075 of the Series 1996 Bonds, of which \$3,710 remains outstanding but is considered defeased and accordingly has been removed from Parkways' financial statements. The advance refunding resulted in a \$491 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2011, approximated \$60 in 2005. 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 2005. 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.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

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 \$570 in 2005. 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%.

Terms of the Interest Rate Swap

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

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

Fair Value

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$7,067 as of June 30, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because Parkways' bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk

As of June 30, 2005, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standards & Poor's and Aa by Moody's Investor's Service as of June 30, 2005.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Basis Risk

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2005. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2005, the BMA rate was 2.28 percent, whereas 67 percent of the LIBOR was 2.59 percent.

Termination Risk

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

Swap Payments and Associated Debt

Using rates as of June 30, 2005, 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>		Interest Rate <u>Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2006	\$ 200	\$ 1,221	\$ 1,780	\$ 3,201
2007	300	1,458	1,478	3,236
2008	3,900	1,451	1,453	6,804
2009	4,300	1,362	1,366	7,028
2010	4,300	1,263	1,267	6,830
2011-2015	25,400	4,700	4,725	34,825
2016-2019	<u>25,100</u>	<u>1,477</u>	<u>1,440</u>	<u>28,017</u>
	<u>\$ 63,500</u>	<u>\$ 12,932</u>	<u>\$ 13,509</u>	<u>\$ 89,941</u>

The following schedule summarizes the revenue bonds outstanding as of June 30, 2005:

<u>2005</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 1993	\$ 10,236	\$ -	\$ (3,615)	\$ 504	\$ 7,125	\$ 217
Series 2001	9,624	-	(675)	60	9,009	710
Series 2002	34,621	-	(1,750)	270	33,141	1,920
Series 2003	<u>55,453</u>	<u>-</u>	<u>(200)</u>	<u>570</u>	<u>55,823</u>	<u>200</u>
	<u>\$ 109,934</u>	<u>\$ -</u>	<u>\$ (6,240)</u>	<u>\$ 1,404</u>	<u>\$ 105,098</u>	<u>\$ 3,047</u>

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Debt service requirements for the Revenue Bonds subsequent to June 30, 2005, are as follows:

Year Ending <u>June 30</u>	Principal <u>Maturities</u>	Interest, Including <u>Accretion</u>	<u>Total</u>
2006	\$ 3,047	\$ 12,282	\$ 15,329
2007	3,239	11,503	14,742
2008	6,680	5,059	11,739
2009	7,330	4,736	12,066
2010	7,405	4,375	11,780
2011-2015	43,950	15,920	59,870
2016-2020	<u>38,395</u>	<u>4,706</u>	<u>43,101</u>
	110,046	<u>\$ 58,581</u>	<u>\$ 168,627</u>
Add:			
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	8,874		
Less:			
Unamortized deferred loss on advance refunding	(12,184)		
Unamortized discount and issuance costs	<u>(1,638)</u>		
		<u>\$ 105,098</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, 2005, Parkways' estimated arbitrage rebate liability was zero.

Following is a summary of the liability for compensated absences for the year ended June 30, 2005:

	Balance <u>June 30, 2004</u>	<u>Payments</u>	<u>Increases</u>	Balance <u>June 30, 2005</u>	Due Within <u>One Year</u>
Termination payments related to sick leave	<u>\$ 3,019</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 3,044</u>	<u>\$ 304</u>

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, 2005, for rental payments of approximately \$2.0 million annually. Management expects the leases to be renewed upon expiration.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

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

- 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, 2005, the Department incurred payroll related expenditures of approximately \$33,136 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$19,025 in employer matching contributions to the State Public Retirement System.
- The Department is insured under the West Virginia Workers' Compensation Plan. During the year ended June 30, 2005 the Department paid approximately \$10,069 for employee workers' compensation benefits, which are paid into funds administered by the West Virginia Workers' Compensation Fund.
- The Department made payments to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately \$5,481 during the year ended June 30, 2005.
- The Department made payments to the Public Service Commission for weight enforcement duties. These expenditures, which were authorized by the Legislature, amounted to approximately \$4,036 during the year ended June 30, 2005.

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 \$585,735 at June 30, 2005. In addition, Parkways had contractual commitments totaling \$6,714 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.

During the year ended June 30, 1989, the Department in-substance defeased Huntington Bridge Revenue Bonds dated January 1, 1965, by authorizing the West Virginia Municipal Bond Commission (MBC), the bond fiscal agent, to purchase U.S. government securities which will mature on dates to coincide with the remaining principal and interest payments. At June 30, 2005, all of these bonds were considered defeased. Accordingly, the assets and liability for these defeased bonds have been excluded from the Department's financial statements.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 12 - RETIREMENT PLAN

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

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Department's contribution of 10.5%, which is established by PERS. The Department's contributions to PERS for the primary government and the component units for the years ended June 30, 2005, 2004 and 2003 were \$19,025, \$19,309 and \$19,431 respectively, equal to the required contributions for each year.

NOTE 13 - RISK MANAGEMENT

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

BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The WCF provides coverage for work related accidents and is considered an insurance enterprise fund. The Department retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 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 and WCF, the Department has obtained health coverage and coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and WCF, the Department has transferred its risks related to health coverage and job related injuries of employees. These entities issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to these specific entities.

West Virginia Department of Transportation
Notes to the Financial Statements
Year Ended June 30, 2005
(amounts expressed in thousands)

NOTE 14 - SUBSEQUENT EVENTS

On July 8, 2005, legislation went into effect that changed the control over the Department's consolidated fund from IMB to a newly created Board of Treasury Investments (BTI). This change did not affect the Department's long-term investment pools.

Senate Bill 428, passed April 9, 2005, transferred the Waste Tire Reclamation program to the Department of Environmental Protection (DEP). Control of the Waste Tire Fund, however, remains in the Department. The legislation permits the Commissioner of Highways to work with and use moneys in the fund to contract with DEP to accomplish the remediation of waste tire piles. Any unprogrammed balance remaining in the fund at the end of any fiscal year shall be transferred to the State Road Fund. The two agencies currently are developing an agreement that will govern spending and reimbursement.

In late August, hurricane Katrina devastated the Gulf Coast Region of the United States. The disaster caused an immediate spike in the price of all petroleum-based products (gasoline, asphalt, etc.) and a probable long-term increase in the cost of items such as concrete, steel, lumber, etc. This already is affecting the Department because the higher prices for these items are causing vendors and contractors to increase their selling costs and in some cases to delay delivery of critical snow and ice materials until fuel escalation clauses are added to the contracts.

On September 8, 2005, the Governor announced that he will sign an executive order to freeze the variable rate component of the motor fuel excise tax at its current rate (\$.065 / gallon). The Department of Revenue had previously projected that the rate would increase to \$.09 / gallon on January 1, 2006, which was estimated to generate at least an additional \$35 million in revenue for the State Road Fund.

On September 13, 2005, legislation was enacted that increased most state employees' salaries \$900 per year. Certain targeted classifications of employees received a \$1,350 yearly increase. On September 16, 2005, the Department employed 5,357 individuals, 62 of whom qualified for the higher increase. Since the increase will be in effect eight months in FY2006, it will cost the Department approximately \$4.7 million in increased payroll and fringe benefits. In subsequent years, it will add approximately \$7.0 million to the cost of operations.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

53

JUNE 30, 2005

(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	\$ 15,583	\$ 870	\$ 1,572	\$ -	\$ 18,025
Receivables	240	167	266	130	803
Taxes receivable	-	-	65	-	65
Inventories	1,210	-	-	-	1,210
Other assets	150	-	-	-	150
Total assets	\$ 17,183	\$ 1,037	\$ 1,903	\$ 130	\$ 20,253
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 250	\$ 1	\$ 344	\$ -	\$ 595
Retainages payable	-	-	-	-	-
Accrued payroll and related liabilities	131	23	62	5	221
Due to other funds/agencies	2,763	-	-	-	2,763
Due to other states	3,410	-	-	-	3,410
Deferred revenue	513	-	-	-	513
Total liabilities	7,067	24	406	5	7,502
Fund balances					
Reserved for inventories	1,210	-	-	-	1,210
Unreserved, undesignated	8,906	1,013	1,497	125	11,541
Total fund balances	10,116	1,013	1,497	125	12,751
Total liabilities and fund balances	\$ 17,183	\$ 1,037	\$ 1,903	\$ 130	\$ 20,253

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005
(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
Revenues					
Taxes					
Aviation fuel	\$ -	\$ -	\$ 654	\$ -	\$ 654
License, fees and permits					
Motor vehicle registrations and licenses	6,678	-	-	-	6,678
Federal aid	4,089	8,717	-	334	13,140
Investment and interest income, net of arbitrage rebate	-	-	-	-	-
Payments from primary government	-	2,141	1,460	534	4,135
Miscellaneous revenues	-	642	26	-	668
	<u>10,767</u>	<u>11,500</u>	<u>2,140</u>	<u>868</u>	<u>25,275</u>
Expenditures					
Current					
Support and administrative operations	10,569	11,296	1,655	553	24,073
	<u>10,569</u>	<u>11,296</u>	<u>1,655</u>	<u>553</u>	<u>24,073</u>
Excess (deficiency) of revenues over expenditures	198	204	485	315	1,202
Fund balances, beginning of year	9,918	809	1,012	(190)	11,549
Fund balances, end of year	<u>\$ 10,116</u>	<u>\$ 1,013</u>	<u>\$ 1,497</u>	<u>\$ 125</u>	<u>\$ 12,751</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 as of and for the year ended June 30, 2005, which collectively comprise the West Virginia Department of Transportation's basic financial statements and have issued our report thereon dated November 4, 2005, which expressed reliance on other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Parkways, Economic Development and Tourism Authority, a discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Parkways, Economic Development and Tourism Authority was based solely on the report of the other auditors. Our report on internal control over financial reporting and compliance and other matters, insofar as it relates to internal control over financial reporting and compliance and other matters for Parkways, Economic Development and Tourism Authority is based solely on the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the West Virginia Department of Transportation financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the West Virginia Department of Transportation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-1 through 2005-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

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

Member of
PKF North American Network
An association of legally independent firms

A Professional Limited Liability Company
www.suttlecpas.com



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the West Virginia Department of Transportation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-2 through 2005-7.

We noted certain matters that we reported to management of the West Virginia Department of Transportation in separate letters dated November 4, 2005.

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



November 4, 2005



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

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

Compliance

We have audited the compliance of the West Virginia Department of Transportation with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The West Virginia Department of Transportation's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the West Virginia Department of Transportation's management. Our responsibility is to express an opinion on the West Virginia Department of Transportation's compliance based on our audit.

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

As described in items 2005-15 and 2005-16 in the accompanying schedule of findings and questioned costs, the West Virginia Department of Transportation did not comply with the requirements of subrecipient monitoring applicable to the Highway Safety Cluster. Compliance with such requirements is necessary, in our opinion, for the West Virginia Department of Transportation to comply with the requirements applicable to the aforementioned programs.

In our opinion, except for the instances of noncompliance described in the preceding paragraph, the West Virginia Department of Transportation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. 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 2005-12 and 2005-14.

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

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

PKF North American Network
An association of legally independent firms

A Professional Limited Liability Company
www.suttlecpas.com



Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the West Virginia Department of Transportation's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-8 through 2005-16.

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

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

Suttle & Stalnaker, PLLC

November 4, 2005

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

<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	\$ 112,766
Schools and Roads - Grants to States	DOH	10.665	<u>452,104</u>
Total U.S. Department of Agriculture			<u>564,870</u>
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Airport Improvement Program	PA	20.106	518,312
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	332,927,796
Appalachian Development Highway System	DOH	23.003	94,359,235
Recreational Trails Funding Program	DOH	20.219	572,452
Federal Transit Capital Improvement Grant	PT	20.500	4,467,102
Federal Transit Technical Studies Grant	PT	20.505	263,218
Public Transportation for Nonurbanized Areas	PT	20.509	3,189,126
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	809,857
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	3,276,977
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	426,745
Federal Highway Safety Data Improvement Incentive Grants	DMV	20.603	74,604
Safety Incentive Grants for Use of Seatbelts	DMV	20.604	<u>1,167</u>
Total U.S. Department of Transportation/U.S. Appalachian Regional Commission			<u>440,886,591</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>12,078,422</u>
Total U.S. Department of Homeland Security			<u>12,078,422</u>
Total Federal Expenditures			<u>\$ 453,529,883</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

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, 2005. These organizations are responsible when necessary, for obtaining separate audits of their federal award programs. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - SUBRECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided to Subrecipients</u>
Highway Planning and Construction	20.205	\$ 8,162,387
Federal Transit Technical Studies Grant	20.505	217,236
Public Transportation for Nonurbanized Areas	20.509	2,387,129
State & Community Highway Safety	20.600	1,160,430
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	385,026
Federal Highway Safety Data Improvements Incentive Grants	20.603	74,604
Safety Incentive Grants for Use of Seatbelts	20.604	<u>1,167</u>
		<u>\$ 12,387,979</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, 2005

Program	Findings/Noncompliance	Questioned Cost
2002-10/2003-8/2004-9 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	<p><u>Independent Engineer's Cost Estimate</u> - For one (Project number U325-19/73-0.09 00 STP-1973 (001)E) out of the 20 proposals which required independent engineer's cost estimates to be performed during the fiscal year ended June 30, 2004, (several instances were noted in 2003 and 2002) the estimate was not prepared by the Department until after the consultant's price proposal was received.</p> <p><u>Current Year Status</u> - Partially Resolved</p> <p><u>Management Response</u> - <i>The Department has pursued making sure independent Engineer's Estimates are prepared prior to receipt of the consultant's cost proposal. Progress has been made in this area over the last couple of years. The Department will continue to address this issue and will make every effort to see that the independent cost estimates are prepared prior to receipt of the consultant's cost proposal. It is felt that the staff has done a pretty good job in this regard, and will work hard to eliminate this finding on future audits.</i></p>	N/A
2002-11/2003-9/2004-10 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	<p><u>Procurement of Architectural and Engineering Services</u> - We noted the following during our review of documentation related to the procurement of architectural and engineering services:</p> <ul style="list-style-type: none"> • For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Noted in prior year) <p><u>Current Year Status</u> - Partially Resolved</p> <p><u>Management Response</u> - <i>Though the Department continues to differ on this finding, we have implemented a new process that requires interviews to be conducted with all consulting firms on the short list prior to final selection. This change in process will help to eliminate this finding in future years though the Department is of the opinion that the necessary documentation was currently available in the files indicating the pre-selection committee had assurance that everyone on the short list has been interviewed by at least one member of the pre-selection committee. The Department and the FHWA have recently agreed to the evaluation criteria required and the procedure to be used in identifying why a particular consultant was chosen. As stated above, the Department has instituted a process that will further document short listing and selection.</i></p>	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

Program	Findings/Noncompliance	Questioned Cost
2002-9/2003-7/2004-8 CFDA# 20.205/23.003/97.036 Highway Planning and Construction Cluster	<p><u>Information Systems Controls</u> - The Department operates a wide variety of computer applications, many of which affect federal and state programs' data. During our review of the information systems controls we noted the following:</p> <ul style="list-style-type: none"> • Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Department did have a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Department's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Department. By completing this review, the Department increases assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Department has not had a code review on all online/e-commerce applications utilized by the Department. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Department. (Partially noted in prior year) • Programmers in the Department's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Department's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Also, partially 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. • The Division of Motor Vehicles (DMV) Cash Register System stores user account passwords in clear unencrypted text. Storing passwords in clear, unencrypted text increases the risk that a user account's password could be compromised by another user. 	N/A

Current Year Status - Partially Resolved

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

Program	Findings/Noncompliance	Questioned Cost
2002-9/2003-7/2004-8 (Continued)	<p><u>Management Response</u> - We recognize the need for a vulnerability assessment of the internal network. We planned to consult with the Information Services and Communications Department (IS&C) about using the statewide contract for this service, determine the costs and present a proposal to the Department's Business Manager for review and approval consideration. However, with the current administration's appointment of a State Chief Technology Officer, we are unsure of our future responsibilities in administering the Department network. As we understand, the State CTO plans to consolidate all state agency networks and support personnel into one agency, IS&C. Afterwards the Department would not be responsible for network operations including vulnerability assessments, intrusion detection and the policies and procedures for these functions.</p> <p>We will continue to monitor the plans of the State CTO and the changing role of agencies with regard to network operations and responsibilities. We will propose vulnerability assessment and intrusion detection plans for the Department network, if necessary.</p> <p>As stated last year, we do not consider the wireless networks referenced to be vulnerable. Wireless use within the Department network is restricted to point-to-point access between MAC addresses only. The Department network offers no wireless access points or hot spot connections that a hacker could exploit.</p>	
2002-13/2003-10/2004-11 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	<p><u>Evaluation of Consultant's Work</u> - We noted the following during our review of the Department's evaluation of consultants' work:</p> <ul style="list-style-type: none"> • The March annual consultant evaluations could not be located for five (2002), seven (2003), and six (2004) of the active projects reviewed. • For one project reviewed, there were no progress notes, even though a "Notice to Proceed" was given to the consultant. <p><u>Current Year Status</u> - Partially Resolved</p> <p><u>Management Response</u> - The Department has concluded our process for conducting evaluations needs to be completely re-evaluated. There are currently too many milestones where evaluation of the consultant's work is required. If we would follow our existing policies, the staff would have to spend a disproportionate amount of time completing evaluations. The Department will work diligently to amend its current procedures so that more realistic goals can be achieved. Management will require the amended procedures to still have proper controls on the evaluations.</p>	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

Program	Findings/Noncompliance	Questioned Cost
2004-12 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	<p><u>Prepayment of Materials</u> - During the year ended June 30, 2004, the Department processed a payment in the amount \$6 million, of which approximately \$3.4 million was for structural steel that was approved by the construction company vendor, steel company vendor, and the Department's third-party contracting inspector as being fabricated and stored at the steel company's shipping yard. However, upon further review, the Department determined that the structural steel had not been fabricated even though documentation submitted to the Department indicated that it had been.</p> <p><u>Current Year Status</u> - Resolved</p>	N/A
2004-13 CFDA# 20.205/23.003 Highway Planning and Construction Cluster	<p><u>Authorization of Overtime Pay</u> - We requested the top 100 amounts of overtime paid during the 2003 calendar year and noted that overtime paid to these individual employees ranged from approximately \$12,000 to \$36,000. Furthermore, overtime hours ranged from 294 hours to 1,161 hours and total hours ranged from 2,507 to 3,392 hours worked.</p> <p><u>Current Year Status</u> - Partially Resolved.</p> <p><u>Management's Response</u> - <i>Management believes only having necessary overtime will eliminate much concern and discussion in this area. The Department unlike other state agencies will never eliminate overtime in fulfilling our mission. Additionally in January all non-emergency related overtime is submitted to the Secretary's office for approval. The Department recognizes overtime is a necessary requirement for the safety of our traveling public and knows it will not be eliminated, but we believe it is now better controlled. The Department has also been notified an audit of overtime is being performed by the Legislative Post-Audit Staff. However, prior to the initiation of that audit the Department was examining classifications to clarify employees as to the status of the overtime being either exempt or non-exempt. The agency is now awaiting the results of the audit, or tentative results to further address this issue.</i></p>	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:		<u>Unqualified Opinion</u>	
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	<u> X </u> no	
Reportable condition(s) identified 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:		<u>Unqualified Opinion</u>	
Material weakness(es) identified?	_____ yes	<u> X </u> no	
Reportable condition(s) 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:			
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>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	<u>Highway Planning and Construction Cluster</u>
<u>20.205</u>	Highway Planning and Construction
<u>23.003</u>	Appalachian Development Highway System
<u>20.500</u>	<u>Federal Transit Capital Improvement Grant</u>
<u>20.509</u>	<u>Non Urban Areas</u>
<u>97.036</u>	<u>Public Assistance Grants</u>
	<u>Highway Safety Cluster</u>
<u>20.600</u>	State and Community Highway Safety
<u>20.601</u>	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
<u>20.603</u>	Federal Highway Safety Data Improvements Incentive Grants
<u>20.604</u>	Safety Incentive Grants for Use of Seatbelts

Dollar threshold used to distinguish between Type A and Type B programs:		<u>\$3,000,000</u>	
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, 2005

SECTION II

FINANCIAL STATEMENT

FINDINGS SECTION

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

2005-1

Information Systems Controls

See related finding at 2005-8.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

69

2005-2 Accounts Receivable Collection and Financial Reporting

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

Condition: We noted that in prior periods management of the Department has extended credit to other entities, including State agencies and political subdivisions that have accounts receivable balances that are past due. By doing this, the Department significantly decreases their ability to collect these balances through the regular collection process. (Also noted in prior year)

The Department has made significant strides in this area by creating new policies and procedures to collect on past due accounts and has limited extending credit to companies known to have overdue accounts.

Context: The total allowance for doubtful accounts as of June 30, 2005 was approximately \$1.3 million. The total accounts receivable for this category of transactions as of June 30, 2005 was approximately \$6.6 million.

Cause: Management of the Department has extended credit to entities, including other State agencies and political subdivisions of the State that have accounts receivable balances that are past due.

Effect: The extension of credit to other State agencies and political subdivisions could be construed as the Department appropriating funds, thus usurping the constitutional authority the legislature.

Recommendation: We recommend that the Department continue to suspend the extension of credit to entities, including other State agencies and political subdivisions with past due balances until the account is brought current. Also, we recommend that the Department continue to evaluate the requirements of West Virginia State Code and determine if revisions to and/or exclusions to the Code should be considered.

Management Response: *Management Response: The Department of Transportation agrees with the recommendation that a policy be developed to analyze the accounts for Accounts Receivable. We will incorporate the policy dealing with the collections into the existing collection policy for the Accounts Receivable Section. We also offer the following comments. Please remember the state once again suffered many disasters the past year and WVDOH may have extended credit to counties, cities or towns affected. But these will be reviewed and analyzed during the current year.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

70

2005-2

Accounts Receivable Collection and Financial Reporting (Continued)

1. *The Department of Transportation does cease credit extension for entities that have past due balances. For hauling permit and escort services accounts through our Maintenance Department, and our "SS" accounts (bid letting and specs) no further charges are allowed until the balance is paid in full. Trucks often have to wait at the state line because we will not issue permits or provide escorts on an overdue account. When entities that have leases with Property Management for sign (logo) rental or property rentals become delinquent, they are notified that their lease will be cancelled or their signs removed.*

2. *In the case of governmental entities, the situation is more complicated. The Department aggressively employs every legal recourse available to collect debts from entities such as County Commissions, Public Service Departments, Towns, School Boards, Prisons, and State Agencies. We have a record of taking many of these entities to the Court of Claims for collection, where we have been overwhelmingly successful. However this is often a more complex situation than can be dealt with a simple refusal of services. For example, we have had Emergency Services Organizations with an outstanding balance need gasoline for an ambulance or a school board for its buses. Often in rural areas we are the only source for gasoline in emergency situations. During the past several years the number of governmental entities obtaining gasoline from the Department of Transportation has significantly decreased. It has been our goal to eliminate this service completely, but emergency situations arise where this is impossible. We receive calls from members of the legislature requesting the Department's services for their constituency in dire circumstances such as water hauling during a drought or assistance from flood damage. Some of these situations are on an emergency status from the Governor's Office and some are not. The Department of Transportation asserts that government must provide for its citizens particularly in exigent circumstances. The Department has responded to these requests with this premise rather than a strictly financial one. The Department seeks guidance from the Legislature for handling matters such as these and requests for services to governmental entities from the Governor's Office on a non-emergency basis to entities indebted to the Department. The Department is currently carrying balances for many government entities for water emergency services.*

The Department does not agree that the extension of credit to entities with outstanding balances "significantly decreases their ability to collect these balances through the regular collection process". There are two applicable time periods for the collection of debts. We have 2 years to collect non-contractual debts and 10 years to collect debts incurred by contract. The Statute of Limitations begins to run when the debt is incurred or the contract is signed. Therefore, subsequent debts have no effect on collecting a prior debt that has a different Statute of Limitations. During the applicable time period Accounts Receivable, the Claims Department, and ultimately the Legal Department work systematically to obtain payment. Prior to the Statute of Limitations expiring, the debt is referred to the Legal Department where a determination is made whether to file a lawsuit. Many factors are considered primarily being if the entity has sufficient funds or assets to satisfy a judgment. If it appears feasible to file a lawsuit, a case is filed in Circuit Court.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

71

2005-2

Accounts Receivable Collection and Financial Reporting (Continued)

The Department, in conjunction with the Department of Purchasing has managed to incorporate into the next fuel card contract the opportunity to allow the vendor to assign fuel cards for vendors who wish to purchase fuel from the Department. This change will allow the Accounts Receivable to become the responsibility of the fuel card vendor and not the Department. If the fuel card vendor drops an agency for non-payment the Department does not plan to sell fuel to that customer.

The Department has made considerable progress in this area. They are now checking to make sure customers are current before extending credit. Additionally, they are notifying customers of delinquencies and are now being proactive in collections. With the advice of counsel, they have also cleaned up much of the older accounts receivable balance.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

72

2005-3

Independent Engineer's Cost Estimate

See related finding at 2005-9.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

73

2005-4

Procurement of Architectural and Engineering Services

See related finding at 2005-10.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

74

2005-5

Evaluation of Consultant's Work

See related finding at 2005-11.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

75

2005-6

Authorization of Overtime Pay

See related finding at 2005-12.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

2005-7

Land

See related finding at 2005-13.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

77

SECTION III

FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS SECTION

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2005

2005-8 Information Systems Controls

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003
Public Transportation for Nonurbanized Areas	20.509
Highway Safety Cluster	
State & Community Highway Safety	20.600
Alcohol Traffic Safety	20.601
Federal Highway Safety Data Improvements Incentive Grants	20.603
Safety Incentive Grants for Use of Seatbelts	20.604
Federal Transit - Capital Grants	20.500
U.S. Department of Homeland Security	
Public Assistance Grants	97.036

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

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

- Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Department did have a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Department's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Department. By completing this review, the Department will have increased assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Department. (Also noted in prior year)
- Programmers in the Department's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Department's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Also, noted in the prior year)
- The Department of Motor Vehicles (DMV) Cash Register System stores user account passwords in clear unencrypted text. Storing passwords in clear, unencrypted text increases the risk that a user account's password could be compromised by another user. (Also, noted in the prior year)

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

79

2005-8	Information Systems Controls (Continued)
Questioned Costs:	N/A
Context:	Information systems controls potentially can affect all federal and state programs and are critical to the daily operations of the Department.
Cause:	Policies and procedures have not been adequately updated and information system controls may have not been monitored by the Department.
Effect:	Unauthorized access to critical information systems may occur and not be detected.
Recommendation:	<p>We recommend that the Department complete a vulnerability assessment of the internal network environment including the related wireless networks. This review could be conducted under a statewide contract that is currently in place with IS&C. Furthermore, we recommend that the Department develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Department.</p> <p>Also, we recommend that the Department remove programmer access from production applications and develop policies and procedures regarding programmer access. If this access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.</p> <p>Furthermore, we recommend that the Department contact the vendor of the DMV Cash Register System and request that passwords be encrypted.</p>
Management Response:	<p><i>Agree: We recognize the need for a vulnerability assessment of the internal network. We planned to consult with the Information Services and Communications Department (IS&C) about using the statewide contract for this service, determine the costs and present a proposal to the DOT Business Manager for review and approval consideration. However, with the current administration's appointment of a State Chief Technology Officer, we are unsure of our future responsibilities in administering the DOT network. As we understand, the State CTO plans to consolidate all state agency networks and support personnel into one agency, IS&C. Afterwards DOT would not be responsible for network operations including vulnerability assessments, intrusion detection and the policies and procedures for these functions.</i></p> <p><i>We will continue to monitor the plans of the State CTO and the changing role of agencies with regard to network operations and responsibilities. We will propose vulnerability assessment and intrusion detection plans for the DOT network, if necessary.</i></p> <p><i>As stated last year, we do not consider the wireless networks referenced to be vulnerable. Wireless use within the DOT network is restricted to point-to-point access between MAC addresses only. The DOT network offers no wireless access points or hot spot connections that a hacker could exploit.</i></p>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

80

2005-9 Independent Engineer's Cost Estimate

Federal Program Information:

CFDA Number

U.S. Department of Transportation

U.S. Appalachian Regional Commission

Highway Planning and Construction Cluster

Highway Planning and Construction

20.205

Appalachian Development Highway System

23.003

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

Condition: For two (Project numbers S245-3-9.37(03); U317-50-18.0300) out of the 20 proposals which required independent engineer's cost estimates to be performed during the fiscal year ended June 30, 2005, the estimate was not prepared by the Department until after the consultant's price proposal was received. (Noted in the prior year)

Questioned Costs: N/A

Context: Total expenditures for architectural and engineering services were approximately \$72.1 million for the year ended June 30, 2005.

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

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

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

Management Response: *Agree: As far as project U317-50-18.03 (Traffic Signal System, US 50), the following reply and proposed action is offered.*

In the past, the Traffic Engineering Department used standard language in the scope of work notes that indicated the consultant would deliver the proposal in three weeks from the date of the scope of work meeting. Sometimes the proposal would arrive prior to the final completion of the independent estimate. It should be kept in mind that those preparing estimates have numerous other job responsibilities. Measures are taken to ensure that those within the Department preparing estimates do not have access to the proposals until such time that the independent estimate is complete.

More recently, at the scope of work meeting this Department has been requesting that the consultants send only narratives and hold the hourly estimate portion of the proposals until such time that the estimate is complete. Then this Department officially requests the consultant's submit the full proposal include work hour estimates.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

81

2005-9

Independent Engineer's Cost Estimate (Continued)

Although no proposals are viewed by staff developing independent estimates prior to completing the estimates, to avoid any perception of impropriety, the following action is proposed. The Director of Traffic Engineering Department will meet with the staff involved in the development of Scope of Work and Independent Estimates to emphasize the importance of completing the independent estimates prior to receipt of the consultant's proposal. All scope of work notes on future projects will indicate that proposals shall not be submitted until specifically requested by the Department of Transportation. This request will not occur until the Director is satisfied that the independent estimate is completed and approved.

As far as project S245-3-9.37 (03) - Mussel Habitat Survey, we agree this is a finding. The independent Engineer's Estimate was not prepared prior to receipt of the consultant's cost proposal.

The WVDOH has pursued making sure independent Engineer's Estimates are prepared prior to receipt of the consultant's cost proposal. Progress has been made in this area over the last couple of years. The WVDOH will continue to address this issue and will make every effort to see that the independent cost estimates are prepared prior to receipt of the consultant's cost proposal. It is felt that the staff has done a pretty good job in this regard, and will work hard to eliminate this finding on future audits.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

82

2005-10

Procurement of Architectural and Engineering Services

Federal Program Information:

CFDA Number

U.S. Department of Transportation

U.S. Appalachian Regional Commission

Highway Planning and Construction Cluster

Highway Planning and Construction

Appalachian Development Highway System

20.205

23.003

Criteria:

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Section 157-1-7.3n of the Code of State Rules states in part that: "A written expression of interest made by the consultant indicating his desire to perform a particular project, task or service. This shall include, as a minimum, a current qualification questionnaire, location of where work would be performed, cost accounting information statement..." Further, Section 157-1-7.16 states: "Record Keeping. Unless otherwise noted, all documentation under this procedure will be retained on file at the Department of Transportation and would be available for review by the FHWA."

In addition, Section 157-1-7.3bb of the Code of State Rules requires the selection committee for the procurement of architectural and engineering services to consist of the Secretary of Transportation, the Commissioner of Highways, the State Highway Engineer and the next lower level of management below the State Highway Engineer under whose direction the work will be performed.

Condition:

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

- For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Noted in prior year) Specifically, we noted this in the following files: S345-3-9.3702, S306-10-4.9900, T627-35-17.9400, S350-44-5.6200, X354-D-4.7302, T637-807-0.0400, Statewide Agreement, U352-2-11.6500, U320-64-49.7304, U212-220-10.64 00, S312-8-0.0100, S245-3-9.37(03), S330-49-1.67(00), GO42-HDQ/ES-1.00(00), and U317-50-18.0300.

Questioned Costs:

N/A

Context:

Total expenditures for architectural and engineering services were \$72.1 million for the year ended June 30, 2005.

Cause:

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

Effect:

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

83

2005-10

Procurement of Architectural and Engineering Services (Continued)

Recommendation:

We recommend that the Department strengthen their policies and procedures regarding required documentation for the procurement of architectural and engineering services and/or seek clarification from the State of West Virginia Legislature regarding the applicable documentation and the related requirements of the West Virginia State Code.

Management Response:

***Agree:** Though the Department continues to differ on this finding, we have implemented a new process that requires interviews to be conducted with all consulting firms on the short list prior to final selection. This change in process will help to eliminate this finding in future years though the Department is of the opinion that the necessary documentation was currently available in the files indicating the pre-selection committee had assurance that everyone on the short list has been interviewed by at least one member of the pre-selection committee. The Department and the FHWA have recently agreed to the evaluation criteria required and the procedure to be used in identifying why a particular consultant was chosen. As stated above, the Department has instituted a process that will further document short listing and selection.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

2005-11 Evaluation of Consultant's Work

Federal Program Information:

CFDA Number

U.S. Department of Transportation

U.S. Appalachian Regional Commission

Highway Planning and Construction Cluster

Highway Planning and Construction

Appalachian Development Highway System

20.205

23.003

Criteria:

Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part that: "The head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities." Further, Section 157-1-7.10 of the code of State Rules states that: "Upon completion or performance termination of the consultant's work, the responsible Department will prepare a report recording its evaluation of the consultant's efforts. A copy shall be sent to the consultant for review and comment and any written comments received shall be attached to the final report. All consultants with active contracts shall be evaluated in March of each year on each active project. On contracts where the final product has been accepted by the Department but the final invoices have not been paid, the consultant will not need to be evaluated..."

Condition:

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

- The March annual consultant evaluations could not be located for twelve out of twenty active projects reviewed. (Also noted in the prior year) The projects numbers were S345-3-9.3702,EA, T627-35-17.9400, EA, X354-D-4.7302, S.A., T637-807-0.0400, E.A., Statewide Agreement, U352-2-11.6500, E.A, U320-64-49.7304, E.A., S312-8-0.0100, S245-3-9.37(03), S33-49-1.67(00), U317-50-18.0300, GO42-HDQ/ES-1.00(00).

Questioned Costs:

N/A

Context:

Total expenditures for architectural and engineering services were \$72.1 million for the year ended June 30, 2005.

Cause:

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

Effect:

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

Recommendation:

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

85

2005-11

Evaluation of Consultant's Work (Continued)

Management Response:

***Agree:** The Department has concluded our process for conducting evaluations needs to be completely re-evaluated. There are currently too many milestones where evaluation of the consultant's work is required. If we would follow our existing policies, the staff would have to spend a disproportionate amount of time completing evaluations. The Department will work diligently to amend its current procedures so that more realistic goals can be achieved. Management will require the amended procedures to still have proper controls on the evaluations.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

2005-12 Authorization of Overtime Pay

Federal Program Information:

CFDA Number

U.S. Department of Transportation

U.S. Appalachian Regional Commission

Highway Planning and Construction Cluster

Highway Planning and Construction

Appalachian Development Highway System

20.205

23.003

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

Condition: We reviewed overtime paid during the fiscal year ended June 30, 2005 and noted the following:

- The Department does not have adequate policies and procedures for the administration of overtime.
- The Department has not updated the existing policies and procedures and related payroll classifications regarding the new U.S. Department of Labor Standards.
- Several employees had a significant amount of overtime during non-emergency situations.
- Some employees in the period of retirement calculation appeared to have unusual amounts of overtime.

Questioned Costs: Unknown

Context: On April 22, 2005, the Cabinet Secretary issued a memo stating that all non-emergency overtime would need approval from his office. Total overtime expense for fiscal year 2005 and 2004 was approximately \$14,002,000 and \$15,366,000, respectively, a \$1,364,000 reduction. For a six month period January to June of each year, the totals were \$6,814,000 for 2005 and \$8,772,000 for 2004, a \$1,958,000 reduction. Furthermore, overtime hours ranged from 313 to 677 for the top 100 employees with overtime.

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

87

2005-12

Authorization of Overtime Pay (Continued)

Recommendation:

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

Management Response:

***Agree:** Management believes only having necessary overtime will eliminate much concern and discussion in this area. The Department unlike other state agencies will never eliminate overtime in fulfilling our mission. Additionally in January all non-emergency related overtime is submitted to the Secretary's office for approval. The Department recognizes overtime is a necessary requirement for the safety of our traveling public and knows it will not be eliminated, but we believe it is now better controlled. The Department has also been notified an audit of overtime is being performed by the Legislative Post-Audit Staff. However, prior to the initiation of that audit the Department was examining classifications to clarify employees as to the status of the overtime being either exempt or non-exempt. The agency is now awaiting the results of the audit, or tentative results to further address this issue.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

88

2005-13

Land

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:

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

Condition:

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

- There was not a comprehensive detail of land and land improvements, or a detail of additions and disposals for the year.
- Appraisals were not always not prepared in a timely fashion.
- Lease renewals were not always properly reviewed.
- Leased property was sometimes occupied by the lessee prior to payment or to the execution of the lease agreement.
- Property was leased for less than fair market value in a significant number of leases.
- Property was sold at less than fair market value to entities that are not governmental entities.
- Unreconciled differences existed in records maintained by the Commissioner compared to those maintained by Property Management.

Questioned Costs:

N/A

Context:

The total land and land improvements on the financial statement is \$19.3 million as of June 30, 2005.

Cause:

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

Effect:

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

Recommendation:

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

Management Response:

Agree: The Department will move to develop a computerized system to track property acquisitions. Districts will be notified to place appropriate priority for tracking lease rates and renewal date. We feel the new valuation criteria for sales and leases will greatly assist with this problem. Also, as one dollar beautification leases become due they are to be converted to beautification permits greatly reducing the number of dollar leases. In addition other one dollar leases to all but governmental agencies will also be re-evaluated as they become due for renewal.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

89

2005 - 14

Non-Compliance with Authorized Funding Techniques

Federal Program Information:

CFDA Number

U.S. Department of Transportation

U.S. Appalachian Regional Commission

Highway Planning and Construction Cluster

Highway Planning and Construction

20.205

Appalachian Development Highway System

23.003

- Criteria: According to Section 6.2.1 of the *Treasury State Agreement (TSA)*, the composite clearance funding technique requires that the State request Federal funds such that they are deposited on the dollar-weighted average number of days required for funds to be debited from the State's account for a series of disbursements as determined by the program's clearance pattern.
- Condition: From discussions with Department staff, it was determined that the Department has not properly implemented the composite clearance funding technique for payroll costs for programs 20.205, *Highway Planning and Construction*, and 23.003, *Appalachian Development Highway System*. According to Department staff, personnel costs that are chargeable to the Federal programs are entered into Department's billing system as the time is worked. The Department's system then accumulates these costs, along with other direct costs, to determine the amount of Federal funds to be drawn. The funds are drawn such that they are deposited ten days from the request date. Since all personnel at Department are paid in arrears, this results in the Federal funds being deposited in the State's accounts up to twenty-four days in advance of the payroll disbursements clearing the State's accounts.
- Questioned Costs: Unknown
- Context: Total federal expenditures were \$427.3 million for these programs.
- Cause: It appears that when the West Virginia State Board of Investments (the State agency previously responsible for the Cash Management Improvement Act (CMIA)) was working with the Department to implement the composite clearance funding technique there was no differentiation made between how funds were to be drawn for payroll costs and how funds were to be drawn for program costs. Additionally, when the CMIA was implemented, all State employees were paid current. Because of this, at the time the funding technique was first implemented, the method for drawing funds for payroll costs may have substantially complied with requirements for the composite clearance funding technique.
- Effect: The funding method employed by the Department for payroll costs does not comply with the authorized funding technique as outlined in Section 6.2.1 of the *TSA*. This may result in each program having generated a State interest liability on payroll costs for fiscal years 2004 and 2005.
- Recommendation: The Treasurer's Office should work with the Department staff to determine how the composite clearance funding technique should be implemented for payroll costs. The Treasurer's Office should also obtain sufficient payroll costs receipt and disbursement information from the Department for fiscal years 2004 and 2005 to determine whether the programs generated a reportable State of West Virginia interest liability. The interest liability, if any, should be reported as an adjustment on future *CMIA Annual Reports*.
- Management's Response: **Agree:** *The Department has provided the Treasurer's Office with the Payroll information on a monthly basis since July 2004. We will continue to work with the Treasurer's Office to develop the appropriate funding technique for the payroll costs and provide any information to resolve prior year interest liability.*

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

2005-15 Subrecipient Monitoring - Policies And Procedures

Federal Program Information: CFDA Number

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

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

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

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

Questioned Costs: Unknown

Context: Total federal expenditures for subrecipients and total federal expenditures for the Highway Safety Cluster were \$1.6 million and \$3.8 million, respectively, for the year ended June 30, 2005.

Cause: Due to personnel turnover and time constraints, management indicated that a complete monitoring plan has not been developed, and only five on-site monitorings were performed during fiscal year 2005.

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

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

Management's Response: *Management is cognizant of the importance of sub-recipient monitoring and is exploring all avenues available to bring the Division into compliance with the monitoring standards.*

