

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2002**

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

COMPONENT UNIT OF THE STATE OF WEST VIRGINIA



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2002**

PREPARED BY
FINANCE SECTION

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CHARLESTON, WV 25311

Audited Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2002

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	1
Government Finance Officers Association Certificate of Achievement	6
Organizational Chart	7
List of Principal Officials	8

FINANCIAL SECTION

Independent Auditors' Report	11
Management's Discussion and Analysis	13
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	25
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets	26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Budgetary Basis) - State Road Fund	29
Notes to Financial Statements	30

Audited Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS

Year Ended June 30, 2002

TABLE OF CONTENTS

(Continued)

STATISTICAL SECTION

Total Expenditures By Function, 1993 to 2002	47
Total Revenue By Source, 1993 to 2002	48
Tax and License Fee Revenue By Source, 1993 to 2002	49
Highway Construction and Improvement - Total Projects Authorized, 1993 to 2002 (Graph)	50
Highway Construction and Improvement - Total Projects Authorized, 1993 to 2002 (Detail)	51
Roadway Projects - System Expansion Only, 1993 to 2002	52
Roadway Resurfacing Projects, 1993 to 2002	53
Fuel and Privilege Tax Rates, 1993 to 2002	54
Total Highway Mileage By Category	55
Ratio Of Annual Debt Service Expenditures To Total General Governmental Expenditures Last Ten Fiscal Years	56

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



**WEST VIRGINIA DEPARTMENT OF
TRANSPORTATION**

Division of Highways

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

**Bob Wise
Governor**

**Fred VanKirk, P. E.
Secretary/Commissioner**

**Jerry Bird
Assistant Commissioner**

December 31, 2002

Honorable Bob Wise, Governor;
Members of the West Virginia Legislature;
and the Citizens of the State of West Virginia

We are pleased to submit the Comprehensive Annual Financial Report of the West Virginia Department of Transportation, Division of Highways (the Division) for the fiscal year ended June 30, 2002. The purpose of the report is to provide the Governor, Legislature, Citizens and other interested parties with reliable financial information about the Division. Responsibility for both the accuracy of the information and the completeness and fairness of presentation, including all disclosures, rests with the Division's management. To the best of our knowledge and belief, the report is accurate in all material respects and is designed to present fairly the financial activity of the Division. All disclosures necessary to enable the reader to gain an understanding of the Division's financial activities have been included.

The Division has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 within the 2002 financial report, which represents a dramatic change in governmental reporting with the inclusion of government-wide statements that are based on full accrual accounting with capital assets, including infrastructure, and long-term debt. The format and purpose of these changes are explained in some detail within the Management's Discussion and Analysis, which immediately precedes the basic financial statements in the financial section of this report.

The Division is an operating division of the state government of West Virginia (the State). The State Road Fund (the Division's general fund) is considered a special revenue fund of the State and represents separate funds of the State that are not a part of the State's General Fund. Effective July 1, 1989, the Department of Highways became the Division of Highways when the Department of Transportation was founded as a result of legislation enacted by the West Virginia Legislature. It had been the Department of Highways since 1969 when the name was changed from the State Road Commission, which was established in 1917. The Division has statutory authority for the construction, rehabilitation and maintenance of 38,424 miles of roads in the State.

This comprehensive annual financial report is divided into an introductory section, financial section and statistical section. In addition to this letter of transmittal, the introductory section also contains the list of the Division's principal officers, organizational chart, and the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2001. The Division was the second West Virginia state agency to be awarded the GFOA Certificate, and is one of only eight State of West Virginia agencies to receive the Certificate for the year ended June 30, 2001. The financial section includes the independent auditors report, Management's Discussion and Analysis (MD&A) which provides an introduction overview and analysis of the "Basic Financial Statements", the Basic Financial Statements, which present the government-wide financial statements and fund financial

statements, together with notes to the Basic Financial Statements, and the budgetary comparison statement for the State Road (general) fund. The statistical section includes other financial data that is not part of the financial statements and highway system information. This report provides information relative to the financial position of the Division in accordance with accounting principles generally accepted in the United States of America and state statutes. All funds used to record the financial activities of the Division are included in the report.

ECONOMIC CONDITIONS AND OUTLOOK

Since the Division is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, consumer purchases of motor vehicles and federal funding generated from motor fuel purchases, revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have remained fairly constant over the past several years, any future changes in these rates would have a significant impact on revenue collections without changes to the tax rates or structure. For the sixth straight year, tax and fee revenue collections increased over the previous year, reflecting a continuing healthy economic outlook. Beginning in fiscal year 1994, an additional five cents per gallon gasoline and motor fuel tax provided additional state monies for highway expansion and improvement. Future motor fuel availability, prices, and consumption rates will have a significant impact upon future tax collections, which are projected to be flat in the immediate future years.

The seasonally adjusted unemployment rate in West Virginia was 6.1 percent for October 2002 as compared to the national rate 5.7 %. During the twelve month period November 2001 to October 2002 nonfarm payroll employment decreased by 7,400 jobs. The diversification of the West Virginia labor market over the last twenty years means that the State's economy is more likely to follow the lead of the national economy in the future. These positive economic indicators are a result of economic growth and the State's continuing emphasis on economic development activities and incentives to attract new businesses and to accelerate expansion of businesses currently in the State. The economic outlook remains stable despite a downturn in the overall economy and positive employment trends are expected to continue.

MAJOR INITIATIVES

Through the efforts of the West Virginia Congressional delegation, the Division has obtained extraordinary federal funding to construct a substantial portion of the Appalachian Development Highway System, and other highways, within the State. Environmental and location work has been nearly completed on Appalachian Development Highway Corridor H (US 33) which is projected to run from Interstate 79 near Weston, West Virginia to Interstate 81 in Virginia. Approximately 37 miles of the estimated 132 miles of this highway within the State have been completed and opened to traffic. Construction of 4 miles is complete and open near Elkins, and 19 miles is complete and open in Hardy County.

Future construction projects in the planning stages include development of modern four lane highways through southern West Virginia. Several corridors are being studied for route locations, including Logan to Man, US 52 and Beckley to the Virginia border near Grundy, Virginia. Construction has begun on all three of these corridors. Construction of Route 9 improvements in the eastern part of the State should continue in 2003. Final plan development and right of way acquisition is underway to complete the remaining 10 mile section of Appalachian Development Highway Corridor D in Parkersburg. The first construction project on this section of Corridor D was awarded in November 1999. Having received additional special federal funds, we now have construction underway on 6 of the remaining 10 miles.

In November 1996, the Citizens of the State of West Virginia approved a constitutional amendment authorizing the issuance of \$550 million of general obligation bonds for highway and road construction. The

bonds can be used for matching funds for federal monies, as available, and for specific state funded projects. The funds were issued in increments as they were needed and approved by the Legislature. The first increment of \$220 million was issued in July 1998, and the second, third and fourth increments of \$110 million each were issued in July 1999, July 2000 and July 2001. The Division is utilizing the proceeds of these bonds on highway and bridge construction, renovation, and improvement; traffic control improvements, such as adding turn lanes; intersection improvements; and access roads for economic development projects. Total bond proceeds committed to authorized projects as of June 30, 2002 was \$562 million.

In conjunction with improvement of the road system through construction and upgrading, the Division has emphasized roadway and bridge preservation and renovation. Rugged, mountainous terrain and numerous streams and rivers characterize the topography of the State. Consequently, the State's road system includes more than 6,400 bridges, some of which are functionally or structurally obsolete. The Division's bridge program, enhanced by a state-funded program beginning in 1988 for small bridges, has been highly successful in correcting these problems. Since July 1, 1989 some 3,956 bridges have been repaired or replaced at a cost of more than \$1.6 billion. Other accomplishments during the fiscal year ended June 30, 2002 include the resurfacing of approximately 1,070 miles of roadway at a cost of \$87 million.

During the fiscal year ended June 30, 2002, the Division continued to improve the operating efficiency of the heavy equipment road maintenance fleet through the procurement of approximately \$12.1 million in new replacement units.

West Virginia emphasizes the safety of its Citizens by requiring mandatory seat belt use. The Division further emphasizes safety through its railroad grade crossing, high hazard location, and guardrail installation programs. The Division also adheres to national standards for traffic control in road construction and road maintenance work areas to maximize safety for motorists and its employees.

FINANCIAL INFORMATION

Management of the Division is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that reliable accounting data are maintained to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute, assurance that:

- Transactions are executed in accordance with management's general or specific authorization.
- Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America or any other criteria, such as finance related legal and contractual compliance requirements applicable to such statements, and (2) to maintain accountability for assets.
- Access to assets is permitted only in accordance with management's authorization.
- The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of cost and benefits requires estimates and judgments by the Division's management.

Budgetary Controls. The Division's expenditures are subject to the legislative budget process of the State of West Virginia. The budget is legally enacted through passage of a legislative bill and approval of the Governor. Formal budgetary control is exercised by the Governor through the Department of Administration which provides preapproval of the Division's spending against appropriation authority. The State auditor is

statutorily charged with similar responsibilities. The Division's internal accounting system is used to accumulate and segregate expenditures and compare them against legislative appropriations. A computerized accounting system with daily input of expenditures from all of the Division's facilities throughout the State is used to provide management with current information. This expenditure data, in conjunction with actual revenue collection data, is used by the Division's management to track current cash status and to forecast future cash requirements. These forecasts are used to adjust planned expenditures to a level appropriate to the forecasted cash availability.

Operations. The schedule on this page presents combined summary revenue and expenditure information for the State Road (General) Fund, the Capital Projects Fund, and the Debt Service Fund for the year ended June 30, 2002. All data is presented in thousands of dollars.

Regarding tax and fee revenues, there were significant increases in gasoline, motor fuel, privilege taxes, and motor vehicle fees. Federal aid revenues increased substantially due to corresponding increases in Appalachian and other federal aid expenditures. Withdrawal of bond proceeds to finance construction projects resulted in a significant decrease in investment and interest income.

There was an overall increase in federal aid expenditures, primarily due to utilization of Appalachian Funds. Bond proceeds were also used on non-federal aid construction projects where expenditures decreased only slightly from the previous year. Maintenance expenditures also decreased slightly. The increase in support and administrative expenditures was primarily due to the continued opening of Division of Motor Vehicle regional offices throughout the state and increases in current expenses. Debt service increased due to the sale of Safe Road bonds issued during the year.

Debt Administration. At June 30, 2002 the outstanding principal balance of long-term general obligation bonds was \$539,540,000. These bonds were issued between 1978 and 2001 including \$550,000,000 issued under the Safe Road Amendment of 1996, and are scheduled to be retired through June 1, 2025. Total debt service payments are expected to remain at \$50 million annually for fiscal years 2003-2012.

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

Risk Management. The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and employee health and life coverage. 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 as public entity risk

	Amount	Percent of Total	Increase (Decrease) from Prior Year	
			Amount	Percent
Gasoline and motor carrier taxes	\$ 229,650	22%	\$ 3,704	2%
Wholesale motor fuel taxes	71,314	7%	(207)	0%
Automobile privilege taxes	180,472	18%	24,849	16%
Motor vehicle registration and licenses	87,380	8%	8,635	11%
Special fees and permits	4,173	0%	110	3%
Federal aid	433,156	42%	20,752	5%
Investments and interest income	8,148	1%	(5,265)	-39%
Miscellaneous	18,976	2%	(66)	0%
Total Revenues	\$ 1,033,269	100%	\$ 52,512	5%
Road construction and other road operations	\$ 650,662	59%	\$ (87,945)	-12%
Road maintenance	297,190	27%	(10,017)	-3%
Support and administrative operations	102,971	9%	11,584	13%
Debt service	50,790	5%	5,021	11%
Total Expenditures	\$ 1,101,613	100%	\$ (81,357)	-9%

pools and insurance funds to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

OTHER INFORMATION

Independent Audit. State statute requires that an annual audit of the Division be performed. The accounting firm of Suttle and Stalnaker, PLLC was engaged to perform the audit for the year ended June 30, 2002. Their report is included in the financial section of this report.

Single Audit. The DOT has undergone a single audit in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The report on the single audit for the year ended June 30, 2002 is available upon request.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Division of Highways for its comprehensive annual financial report for the past ten consecutive fiscal years (1992-2001). The Certificate of Achievement is a prestigious international award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. We believe our comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for review under this program.

Acknowledgments. The preparation of the comprehensive annual financial report on a timely basis was made possible by the personnel of the Finance Division and the Business Office. I express my sincere appreciation for the contributions made by these individuals in the preparation of this report, particularly Business Manager Danny Ellis, who has administrative responsibility for this function.



Fred VanKirk, P.E.
Secretary/Commissioner

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Division
of Highways

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

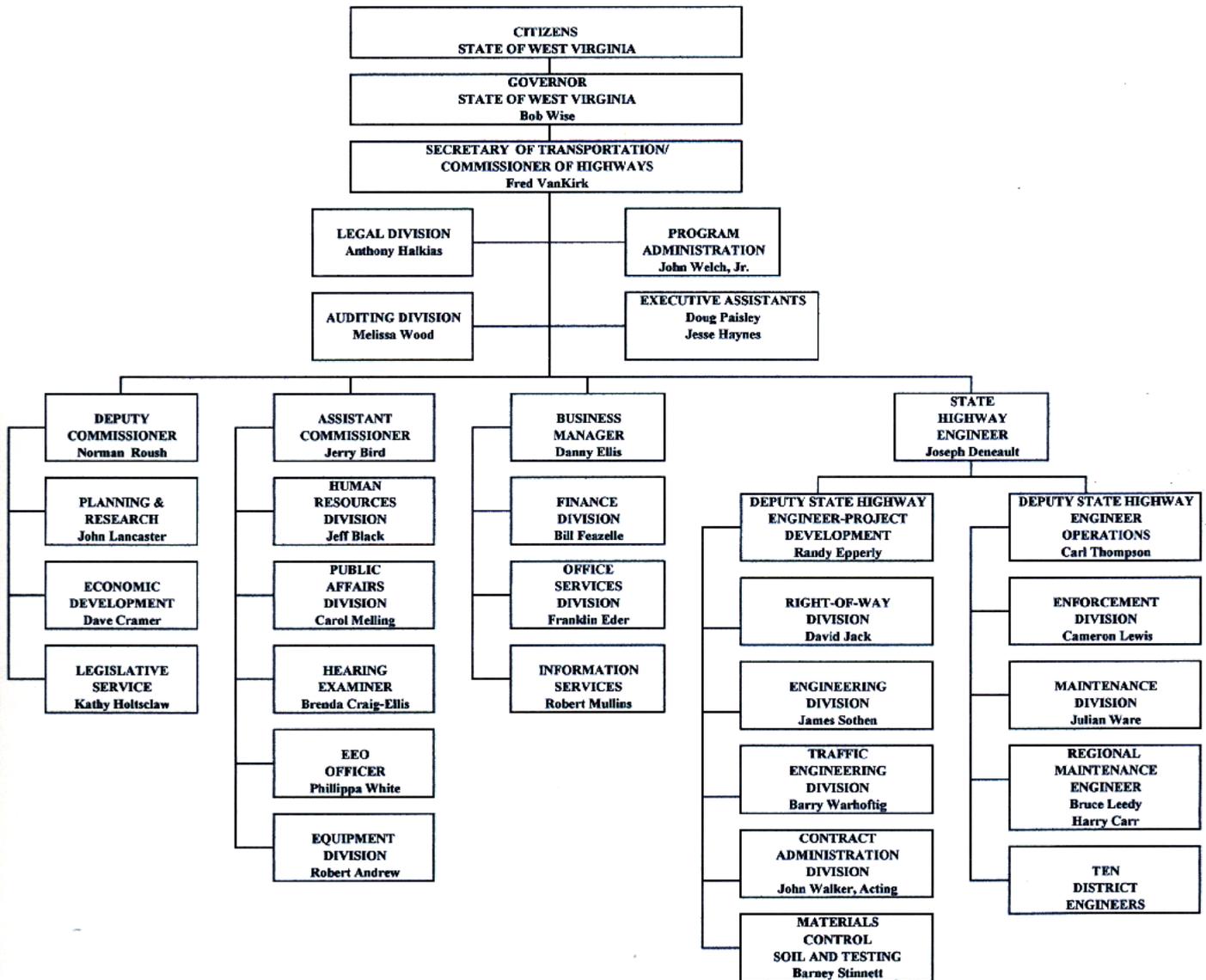
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



William Patrick Pate
President

Jeffrey L. Essler
Executive Director

**WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
ORGANIZATIONAL CHART
June 30, 2002**



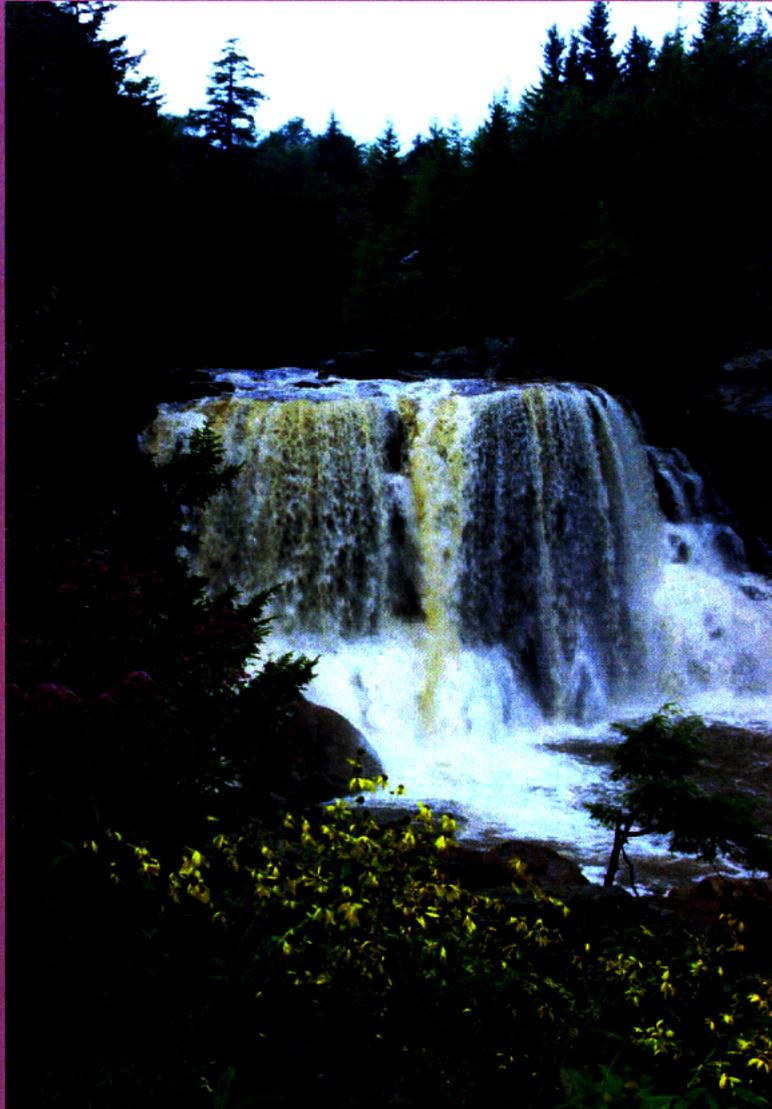
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 LIST OF PRINCIPAL OFFICIALS
 June 30, 2002

Fred VanKirk	Secretary of Transportation/Commissioner
Jerry Bird	Assistant Commissioner
Doug Paisley	Executive Assistant
Jesse Haynes	Executive Assistant
Danny Ellis	Business Manager
Norman Roush	Deputy Secretary DOT
Joseph Deneault	State Highway Engineer
Carl Thompson	Deputy State Highway Engineer-Operations
Randy Epperly	Deputy State Highway Engineer-Project Development
Dave Cramer	Economic Development
Kathy Holtsclaw	Legislative Service
Brenda Craig-Ellis	Hearing Examiner
Phillippa White	EEO Officer
John Walker	Acting Director, Contract Administration Division
Melissa Wood	Director, Auditing Division
Cameron Lewis	Director, Enforcement Division
James Sothen	Director, Engineering Division
Robert Andrew	Director, Equipment Division
Bill Feazelle	Director, Finance Division
Robert Mullins	Director, Information Services Division
Julian Ware	Director, Maintenance Division
Barney Stinnett	Director, Materials Control Soil & Testing Division
Anthony Halkias	Director, Legal Division
Franklin Eder	Director, Office Services Division
John Lancaster	Director, Planning and Research Division
John Welch, Jr.	Director, Program Administration Division
Carol Melling	Director, Public Information Division
David Jack	Director, Right of Way Division
Barry Warhoftig	Director, Traffic Engineering Division
Jeff Black	Director, Human Resources Division
Harry Carr	Regional Operations Engineer
Bruce Leedy	Regional Operations Engineer

DISTRICT ENGINEERS

District 1	John Dawson	Charleston
District 2	Wilson Braley	Huntington
District 3	Rusty Roten	Parkersburg
District 4	Marvin Murphy	Clarksburg
District 5	William W. Hartman	Burlington
District 6	Bob Whipp	Moundsville
District 7	Gary Clayton	Weston
District 8	Tom Staud	Elkins
District 9	Jim Lagos	Lewisburg
District 10	Bill Bennett	Princeton

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BLACKWATER FALLS

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

INDEPENDENT AUDITORS' REPORT

Joint Committee on Government and Finance
West Virginia Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund, of the West Virginia Department of Transportation, Division of Highways, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation, Division of Highways' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways, as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road (General) Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 5 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Department of Transportation, Division of Highways basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Subtle & Stalaker, PLLC

October 31, 2002

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

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

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide:

Net Assets - The assets of the Division exceeded its liabilities at June 30, 2002 by \$5.3 billion (presented as "total net assets"). Of this amount, \$85 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Division's ongoing obligations to citizens and creditors.

Changes in Net Assets - The Division's total net assets at June 30, 2002 decreased by \$42 million (a .79 % decrease) in total net assets from June 30, 2001.

Revenues - Total revenues increased \$53 million or 5.35%. The amount of automobile privilege tax revenue increased by \$25 million or 15.97%.

Expenditures - Total expenditures decreased \$49 million or 4.37%. Expenditures excluding noncapitalized construction expenditures increased by \$6 million or 1.38%.

Fund Highlights:

Government Funds - Fund Balances - As of the close of fiscal year 2002, the Division's governmental funds reported combined total fund equity of \$247 million, an increase of \$46 million in comparison with the prior year. Of this total amount, \$133 million represents the "unreserved fund balances" with substantially all being in the general fund. This is roughly 12.40 % of the total governmental fund expenditures for the year.

Long-term Debt:

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Division's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities. The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The basic financial statements include two kinds of financial statements that present different views of the Division - the Government-Wide Financial Statements and the Fund Financial Statements. These financial statements also include the Notes to the Financial Statements that explain some of the information in the financial statements and provide more detail.

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

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS- CONTINUED

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

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

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

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

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

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

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

- The State Road fund, which is the Division's general fund, reflects the ongoing operations of the Division that are financed from the designated tax, license, registration and other fees, as well as the federal share of projects that qualify for federal reimbursement.
- The Capital Projects fund reflects the expenditure of proceeds from bond offerings.
- The Debt Service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE

The Division's net assets decreased by approximately \$42 million or .79%. Prior year information is not available to present a complete comparison to the prior year. In future years, a full comprehensive financial analysis will be presented. The following summarizes the Division's net assets at year end (amounts in thousands).

Net Assets as of June 30, 2002

ASSETS	
Current assets	
Cash and cash equivalents	\$ 201,009
Other assets	157,423
Total current assets	358,432
Non-current assets	
Capital assets, net of accumulated depreciation	
Buildings, furniture and fixtures	39,883
Land and land improvements	17,824
Equipment	49,355
Roads, bridges and right of way	5,280,688
Work in progress	270,790
Total capital assets	5,658,540
Other non-current assets	3,574
Total assets	6,020,546
LIABILITIES	
Current liabilities	
Other current liabilities	113,500
Current maturities of long term obligations	42,107
Total current liabilities	155,607
Non-current liabilities	
Claims and judgments	4,095
Compensated absences	56,222
General obligation bonds	520,955
Total non-current liabilities	581,272
Total liabilities	736,879
NET ASSETS	
Invested in capital assets, net of related debt	5,198,392
Unrestricted	85,275
Total net assets	\$ 5,283,667

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

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE - CONTINUED

The largest component (98.38%) of the Division's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The remaining portion, unrestricted net assets, may be used at the Division's discretion.

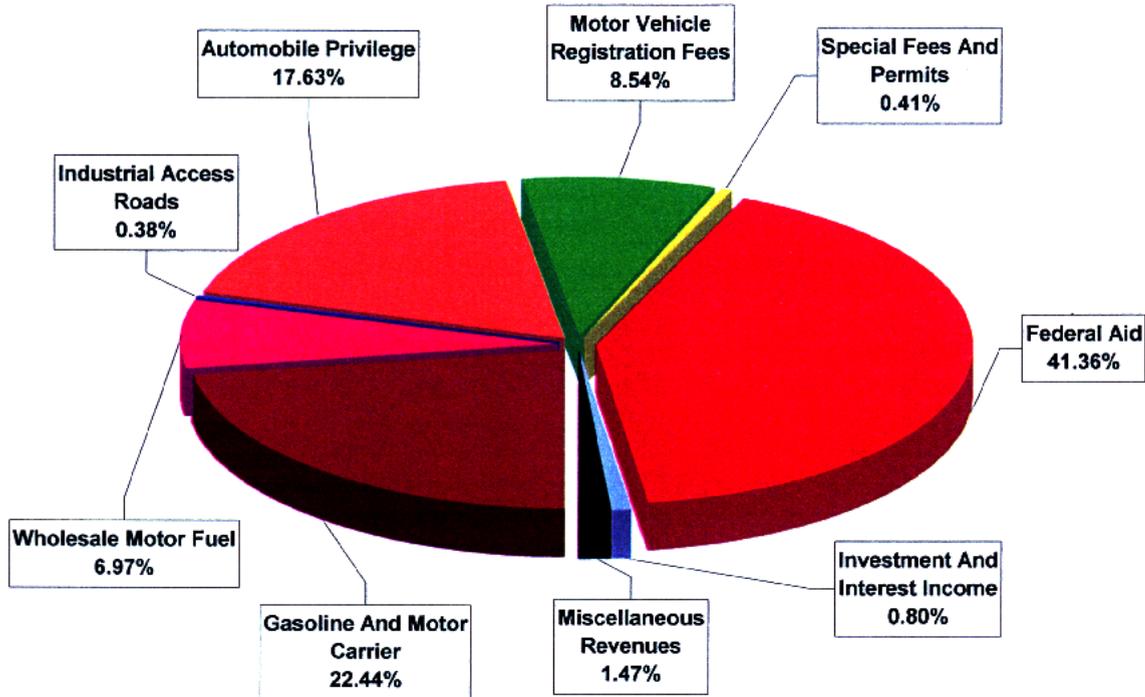
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Division's net assets changed during the fiscal year (amounts in thousands):

Revenues	
Taxes	\$ 485,350
Licenses, fees and permits	91,553
Federal aid	433,156
Investment and interest income	8,148
Miscellaneous revenues	15,062
Total revenues	<u>1,033,269</u>
Expenses	
Road maintenance	297,586
Other road operations	649,364
General and administration	85,822
Interest on long-term debt	28,168
Unallocated depreciation	14,022
Total expenses	<u>1,074,962</u>
Change in net assets	(41,693)
Net assets, beginning	<u>5,325,360</u>
Net assets, ending	<u>\$ 5,283,667</u>

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

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE - CONTINUED

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



Total revenues increased by approximately \$53 million. Total tax revenues increased by approximately \$32 million with the majority of the increase (\$25 million or 78%) due to increases in the privilege tax. Federal aid revenue increased by approximately \$21 million (5.0%). The following summarizes revenues for the year ended June 30, 2002 and June 30, 2001 (amounts in thousands):

	June 30, 2002	June 30, 2001	Increase (decrease)	% Increase
Gasoline and motor carrier road tax	\$ 229,650	\$ 221,757	\$ 7,893	3.56%
Wholesale motor fuel	71,314	71,521	(207)	(.29%)
Industrial access roads	3,914	4,189	(275)	(6.56%)
Automobile privilege	180,472	155,623	24,849	15.97%
Motor vehicle registration fees	87,380	78,745	8,635	10.97%
Special fees and permits	4,173	4,063	110	2.71%
Federal aid	433,156	412,403	20,753	5.03%
Investment and interest income	8,148	13,413	(5,265)	(39.25%)
Miscellaneous revenues	15,062	19,042	(3,980)	(20.90%)
	<u>\$ 1,033,269</u>	<u>\$ 980,756</u>	<u>\$ 52,513</u>	<u>5.35%</u>

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

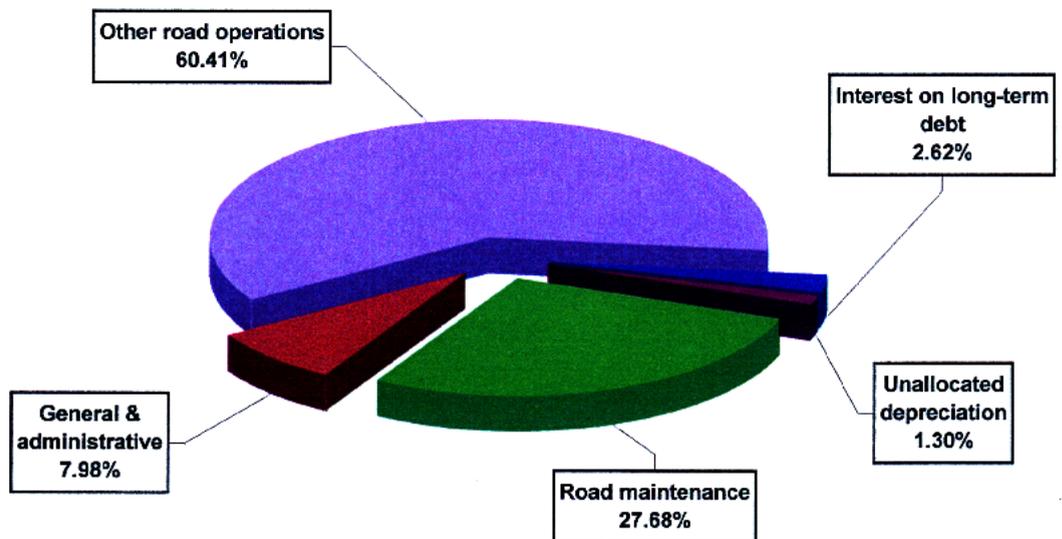
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE - CONTINUED

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

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

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



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

FINANCIAL ANALYSIS OF THE DIVISION AS A WHOLE - CONTINUED

Total expenditures decreased by approximately \$49 million (4.37%). The following summarizes expenditures for the years ended June 30, 2001 and June 30, 2002 (amounts in thousands):

	June 30, 2002	June 30, 2001	Increase (decrease)	% Increase (decrease)
Road maintenance	\$ 297,586	\$ 307,953	\$ (10,367)	(3.37%)
Other road operations	649,364	708,291	(58,927)	(8.32%)
General and administration	85,822	69,481	16,341	23.52%
Interest on long-term debt	28,168	14,344	13,824	96.37%
Unallocated depreciation	14,022	24,051	(10,029)	(41.70%)
	<u>\$ 1,074,962</u>	<u>\$ 1,124,120</u>	<u>\$ (49,158)</u>	<u>(4.37%)</u>

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

- Upon retirement, the Division's employees may use accumulated sick leave to purchase health insurance premium at a predetermined number of days per month of coverage or to extend their years of service credits for retirement purposes. The rising cost of premiums has resulted in a change in the actuarial assumptions related to the computation of the liability for this post retirement benefit. As premiums rise employees are more likely to choose to use accumulated sick leave to acquire insurance and less likely to extend service credits. The liability for accrued sick leave to be paid on retirement increased by approximately \$9 million.
- The Division allocates the cost of employee benefits to the various functions (operations, construction, maintenance, etc.) by applying an additive rate to salary amounts charged to those functions. As of the last review of the additive rate the Division had under distributed these costs by approximately \$8 million. The additive rate is adjusted each year to reflect any over or under allocation so that these costs are allocated to the various projects and functions of the Division in succeeding years.

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS

As the Division completed the year, the Division reported fund balances of \$247 million. Of this total amount, \$133 million, 53.91%, constitutes unreserved fund balance, which is 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 has already been dedicated for various commitments, such as capital outlay projects.

State Road Fund

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

Capital Projects Fund

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

Debt Service Fund

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the Division. During the year ended June 30, 2002 this fund was no longer mandated, and the remaining funds of approximately \$132 thousand were transferred to the State Road Fund. Bond principal and interest payments on all outstanding debt are currently being made directly from the State Road Fund.

State Road (General) Fund Budgetary Highlights

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

The Division's budget included \$611 million in federal aid revenues to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9 and other major corridors including King Coal Highway, Coalfields Expressway, WV 2, WV 10, and WV 35. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. The budgeted amounts for federal aid revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project.

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

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

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUNDS - CONTINUED

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

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

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Division'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 Division will be required to reduce expenditures on programs that are discretionary and expenditures in these areas will be managed to ensure that the Division maintains a positive fund balance. The Fiscal 2003 budget reflects a budgeted decline in fund balance of approximately \$38 million. Management is taking all necessary steps to ensure that the fund balance of the Division is maintained at levels that are adequate to ensure the soundness of the Division and is confident that adequate discretionary items exist to permit them to continue to operate in a fiscally sound manner. However, the level of funding available and the increases in non-discretionary spending may impact the Division's ability to achieve all operational objectives.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2002, the Division had invested \$5.7 billion, net of accumulated depreciation, in a range of capital assets (see table below). Depreciation charges for the fiscal year totaled \$239 million.

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

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Land - non infrastructure	\$ 14,287	\$ 13,386	6.73%
Buildings	39,373	36,828	6.91%
Furniture and fixtures	510	535	(4.67%)
Land improvements - non infrastructure	3,537	2,476	42.85%
Rolling stock	48,309	47,560	1.57%
Shop equipment	375	513	(26.90%)
Scientific equipment	671	626	7.19%
Total capital assets excluding infrastructure	<u>107,062</u>	<u>101,924</u>	5.04%
Land - infrastructure	579,229	521,454	11.08%
Roads	3,871,849	3,828,990	1.12%
Bridges	829,610	704,605	17.74%
Construction in process - roads	228,271	348,094	(34.42%)
Construction in process - bridges	42,519	146,687	(71.01%)
Total infrastructure	<u>5,551,478</u>	<u>5,549,830</u>	.03%
Total capital assets	<u>\$ 5,658,540</u>	<u>\$ 5,651,754</u>	.12%

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

CAPITAL ASSETS AND DEBT ADMINISTRATION - CONTINUED

The limited increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$224 million in depreciation on the infrastructure. The Division expended \$246 million dollars during the year ended June 30, 2002 for additions to infrastructure. Of this amount, \$226 million was related to the acquisition of right of way and construction of roads and bridges. Construction costs for completed projects in the amount of \$392 million was reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Randolph and Hardy Counties, Corridor D in Wood County, upgrade of WV 10 in Logan County, upgrade of WV 2 in Brooke County, widening of I-64, and continued environmental studies on various projects in process.

Long-term Debt

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

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

Issue	Status of insurance	Bond Rating	Amount (in thousands)
Better Highways 73 - All Bonds maturing on or before June 1, 2006	Not insured	Fitch: AA- Moody's: Aa3 S&P: AA-	\$ 18,660
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	204,080
Safe Roads 99A - All Bonds maturing on or before June 1, 2007	Not Insured	Fitch: AA- Moody's: Aa3 S&P: AA-	105,020
Safe Roads 00A - All Bonds maturing on or before June 1, 2020	Insured by FGIC	Fitch: AAA Moody's: Aaa S&P: AAA	32,290
Safe Roads 00A - Term Bond maturing on June 1, 2025	Insured by MBIA	Fitch: AAA Moody's: Aaa S&P: AAA	77,710
Safe Roads 01A - Bonds maturing between June 1, 2005 to 2013	Insured by FSA	Fitch: AAA Moody's: Aaa S&P: AAA	93,465
Safe Roads 01A - Bonds maturing between June 1, 2002 to 2004	Not insured	Fitch: AA- Moody's: Aa3 S&P: AA-	8,315
			<u>\$ 539,540</u>

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

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

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 201,009
Accounts receivable	63,137
Taxes receivable	56,327
Due from other State of West Virginia agencies	5,380
Inventories	30,273
Other assets	2,306
Total current assets	358,432
Non-current assets	
Capital assets, net of accumulated depreciation	
Land - non-infrastructure	14,287
Land improvements	3,537
Buildings	39,373
Furniture and fixtures	510
Rolling stock	48,309
Scientific equipment	671
Shop equipment	375
Roads	3,871,849
Bridges	829,610
Land - infrastructure	579,229
Work in progress	270,790
Total capital assets	5,658,540
Other non-current assets	3,574
Total assets	6,020,546
LIABILITIES	
Current liabilities	
Accounts payable	73,120
Retainages payable	14,770
Accrued payroll and related liabilities	20,337
Due to other State of West Virginia agencies	2,946
Accrued interest payable	2,327
Current maturities of long term obligations	42,107
Total current liabilities	155,607
Non-current liabilities	
Claims and judgements	4,095
Compensated absences	56,222
General obligation bonds	520,955
Total non-current liabilities	581,272
Total liabilities	736,879
NET ASSETS	
Invested in capital assets, net of related debt	5,198,392
Unrestricted	85,275
Total net assets	\$ 5,283,667

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	\$ 228,449	\$ -	\$ -	(228,449)
Contract paving & secondary roads	41,536	-	-	(41,536)
Small bridge repair & replacement	25,259	-	-	(25,259)
Litter control program	1,595	-	-	(1,595)
Depreciation	747	-	-	(747)
Other road operations				
Interstate highways	54,614	-	55,825	1,211
Appalachian highways	126,317	-	161,088	34,771
Other federal aid programs	199,802	-	216,243	16,441
Non federal aid improvements	41,966	-	-	(41,966)
Industrial access roads	2,224	-	3,914	1,690
Depreciation	224,441	-	-	(224,441)
General and administration				
Support and administrative operations	53,183	4,173	-	(49,010)
Claims	610	-	-	(610)
Costs associated with DMV	32,029	-	-	(32,029)
Interest on long-term debt	28,168	-	-	(28,168)
Unallocated depreciation	14,022	-	-	(14,022)
	<u>1,074,962</u>	<u>4,173</u>	<u>437,070</u>	<u>(633,719)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				229,650
Wholesale motor fuel				71,314
Automobile privilege				180,472
Motor vehicle registration fees				87,380
Investment and interest income				8,148
Miscellaneous revenues				15,062
Total general revenues				<u>592,026</u>
Change in net assets				(41,693)
Net assets, beginning (as restated)				5,325,360
Net assets, ending				<u>\$ 5,283,667</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

	State Road (General)	Capital Projects	Total Governmental Funds
ASSETS			
Assets			
Cash and cash equivalents	\$ 111,247	\$ 89,762	\$ 201,009
Receivables	61,857	1,280	63,137
Taxes receivable	56,327	-	56,327
Due from other State of West Virginia agencies	5,380	-	5,380
Due from other funds	71	-	71
Inventories	30,273	-	30,273
Other assets	2,306	-	2,306
	<u>\$ 267,461</u>	<u>\$ 91,042</u>	<u>\$ 358,503</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 67,422	\$ 5,698	\$ 73,120
Retainages payable	13,180	1,590	14,770
Accrued payroll and related liabilities	20,337	-	20,337
Due to other State of West Virginia agencies	2,946	-	2,946
Due to other funds	-	71	71
	<u>103,885</u>	<u>7,359</u>	<u>111,244</u>
Fund balances			
Reserved for capital projects	-	83,683	83,683
Reserved for inventories	30,273	-	30,273
Unreserved, undesignated	133,303	-	133,303
	<u>163,576</u>	<u>83,683</u>	<u>247,259</u>
	<u>\$ 267,461</u>	<u>\$ 91,042</u>	<u>\$ 358,503</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

Total fund balances - governmental funds \$ 247,259

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

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

Land - non infrastructure	\$	14,287	
Land improvements- non infrastructure		3,537	
Buildings		39,373	
Furniture and Fixtures		510	
Rolling Stock and Shop Equipment		48,309	
Scientific Equipment		671	
Shop Equipment		375	
Roads		3,871,849	
Bridges		829,610	
Infrastructure Land		579,229	
Work in process		270,790	5,658,540

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets 3,574

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

Accrued interest payable		(2,327)	
Claims and judgments		(4,095)	
Compensated absences		(56,222)	
General obligation bonds		(563,062)	(625,706)

Net assets of governmental activities \$ 5,283,667

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

(amounts expressed in thousands)

	State Road (General)	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	\$ 229,650	\$ -	\$ -	\$ 229,650
Wholesale motor fuel	71,314	-	-	71,314
Automobile privilege	180,472	-	-	180,472
Industrial access	3,914	-	-	3,914
License, fees and permits				
Motor vehicle registrations and licenses	87,380	-	-	87,380
Special fees and permits	4,173	-	-	4,173
Federal aid				
Interstate highways	55,382	443	-	55,825
Appalachian highways	161,088	-	-	161,088
Other federal aid programs	202,217	14,026	-	216,243
Investment and interest income, net of arbitrage rebate	2,412	5,422	314	8,148
Miscellaneous revenues	15,062	-	-	15,062
	<u>1,013,064</u>	<u>19,891</u>	<u>314</u>	<u>1,033,269</u>
Expenditures				
Road maintenance				
Expressway, trunkline and feeder, state and local service	228,456	-	-	228,456
Contract paving and secondary roads	41,536	-	-	41,536
Small bridge repair and replacement	25,603	-	-	25,603
Litter control program	1,595	-	-	1,595
Support and administrative operations	70,927	-	-	70,927
Division of Motor Vehicles operations	32,029	-	-	32,029
Claims	15	-	-	15
Road construction and other road operations				
Interstate highways	66,888	1,104	-	67,992
Appalachian highways	198,175	-	-	198,175
Other federal aid programs	274,354	20,777	-	295,131
Nonfederal aid construction	15,559	71,581	-	87,140
Industrial access road	2,224	-	-	2,224
Debt service	13,814	-	36,976	50,790
	<u>971,175</u>	<u>93,462</u>	<u>36,976</u>	<u>1,101,613</u>
Excess (deficiency) of revenues over expenditures	<u>41,889</u>	<u>(73,571)</u>	<u>(36,662)</u>	<u>(68,344)</u>
Other financing sources (uses)				
Proceeds from issuance of long term debt	-	114,172	-	114,172
Operating transfers in	132	-	35,859	35,991
Operating transfers out	(35,859)	-	(132)	(35,991)
Total other financing sources (uses)	<u>(35,727)</u>	<u>114,172</u>	<u>35,727</u>	<u>114,172</u>
Net change in fund balances	6,162	40,601	(935)	45,828
Fund balances, beginning of year	<u>157,414</u>	<u>43,082</u>	<u>935</u>	<u>201,431</u>
Fund balances, end of year	<u>\$ 163,576</u>	<u>\$ 83,683</u>	<u>\$ -</u>	<u>\$ 247,259</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

Net change in fund balances - total governmental funds	\$	45,828
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 \$245,996 exceeded depreciation of (\$239,209) in the current period.</p>		
		6,787
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds of (\$110,000) exceeded repayments of \$21,485.</p>		
		(88,515)
<p>Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets. Bond issuance costs are expenditures to governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums of (\$4,172) exceeded bond issue costs of \$774.</p>		
		(3,398)
<p>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 (\$8,863), interest payable of (\$347) and amortization of bond issuance costs of (\$443) exceeded accretion of bond premiums of \$1,153 and a decrease in accrued claims of \$6,105.</p>		
		<u>(2,395)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>(41,693)</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

(amounts expressed in thousands)

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

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY - The Division is an operating unit of the West Virginia Department of Transportation and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The Division is a legally separate entity defined by the State constitution, and has statutory responsibility for the construction, reconstruction, maintenance, and improvement of all State roads. The Division is governed by a commissioner who is appointed by the Governor, but does not have a governing board separate from the State Legislature. The Division is considered a component unit of the State and its financial statements are blended with the financial statements of the primary government in the state's comprehensive annual financial report.

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

Management has considered all potential component units to be included in the Division's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. These criteria include consideration of organizations for which the Division is financially accountable, or organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Division has no component units.

The Division of Motor Vehicles is an operating division of the West Virginia Department of Transportation, which collects certain revenues for expenditure by the Division. The expenditures related to the collection of these revenues are recorded in the State Road Fund of the Division.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The Division has no component units, fiduciary activities or business type activities; therefore the government-wide financial statements of the Division are composed of all of the governmental activities of the Division.

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting for the governmental fund financial statements include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2002, has been reported only in the government-wide financial statements.
- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. 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 Division 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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- State Road (General) Fund - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.
- 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.
- Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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 - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 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 Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as 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 Division's State Road Fund has a legislatively approved budget. However, the capital projects fund, debt service fund, and certain monies reported within the State Road Fund for GAAP purposes, are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2002, on the budgetary basis to the GAAP basis for the State Road Fund follows:

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

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

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.

INVENTORIES - Inventories are stated at weighted average cost generally using the "consumption Method" whereby expenditures are recognized in the period in which inventory usage, as opposed to purchase, occurs. The portion of fund balance relating to inventories is reported as "Reserve for inventories" in the Government Fund Financial Statements.

CAPITAL ASSETS - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the division, such as roads, bridges, and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Division as non-infrastructure assets which have a cost of five thousand dollars or more for machinery, equipment, rolling stock, furniture and fixtures; twenty-five thousand dollars or more for buildings at the date of acquisition and have an expected useful life of three or more years; and infrastructure assets with a cost in excess of one million dollars. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused vacation and sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes. The Division pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. Expenditures for vacation, sick leave, and post retirement health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated vacation leave, sick leave and post-retirement health insurance as a liability.

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

NOTE 2 - ACCOUNTS RECEIVABLE

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

Federal aid billed and not paid	\$	2,316
Federal aid earned but not billed		<u>55,143</u>
Total federal aid receivable		57,459
Other receivables		<u>8,178</u>
Combined total receivables		65,637
Less: allowance for uncollectibles		<u>2,500</u>
Net accounts receivable	\$	<u>63,137</u>

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

NOTE 3 - TAXES RECEIVABLE

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

Automobile privilege taxes	\$	28,582
Gasoline and motor fuel taxes		<u>27,745</u>
		<u>\$ 56,327</u>

NOTE 4 - DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES

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

The Department of Administration	\$	114
Bureau of Employment Programs		64
Office of Emergency Services		4,727
The Department of Transportation		237
The Governor's Office		48
West Virginia State Police		40
West Virginia Building Commission		28
Adjutant Generals Office		94
Other agencies		<u>28</u>
	\$	<u>5,380</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

NOTE 4 - DUE FROM/TO OTHER STATE OF WEST VIRGINIA AGENCIES (Continued)

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

The Department of Administration	\$	336
Bureau of Employment Programs		2,358
The Department of Tax and Revenue		9
Division of Environmental Protection		27
Department of Natural Resources		51
Division of Corrections		138
Division of Culture and History		23
Other agencies		<u>4</u>
	<u>\$</u>	<u>2,946</u>

NOTE 5 - INTERFUND TRANSFERS

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

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

NOTE 6 - INVENTORIES

Inventories at June 30, 2002 consisted of the following:

Materials and supplies	\$	19,710
Equipment repair parts		9,351
Gas and lubrication supplies		<u>1,212</u>
	<u>\$</u>	<u>30,273</u>

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 7 - CAPITAL ASSETS

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

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets not being depreciated:				
Land - non infrastructure	\$ 13,387	\$ 900	\$ -	\$ 14,287
Land - infrastructure	521,454	57,775	-	579,229
Construction-in-progress - roads	348,094	127,172	246,995	228,271
Construction-in-progress - bridges	146,687	41,143	145,311	42,519
	<u>1,029,622</u>	<u>226,990</u>	<u>392,306</u>	<u>864,306</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings	59,103	4,365	49	63,419
Furniture and fixtures	3,406	197	48	3,555
Land improvements - non infrastructure	3,204	1,286	-	4,490
Rolling stock	161,645	12,951	3,365	171,231
Shop equipment	3,013	48	17	3,044
Scientific equipment	1,826	159	23	1,962
Infrastructure - roads	5,877,066	246,994	-	6,124,060
Infrastructure - bridges	869,941	145,312	-	1,015,253
	<u>869,941</u>	<u>145,312</u>	<u>-</u>	<u>1,015,253</u>
Less accumulated depreciation:				
Buildings and improvements	22,275	1,820	49	24,046
Furniture and fixtures	2,871	222	48	3,045
Land improvements - non infrastructure	728	225	-	953
Rolling stock	114,085	12,202	3,365	122,922
Shop equipment	2,500	186	17	2,669
Scientific equipment	1,200	114	23	1,291
Infrastructure - roads	2,048,076	204,135	-	2,252,211
Infrastructure - bridges	165,337	20,306	-	185,643
	<u>2,357,072</u>	<u>239,210</u>	<u>3,502</u>	<u>2,592,780</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>4,622,132</u>	<u>172,102</u>	<u>-</u>	<u>4,794,234</u>
Governmental activities capital assets, net	<u>\$ 5,651,754</u>	<u>\$ 399,092</u>	<u>\$ 392,306</u>	<u>\$ 5,658,540</u>

Current year depreciation totaling \$239,210 was allocated as a separate line item in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(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	\$ 1,820
Furniture and fixtures	12,202
Rolling stock	186
Land improvements	225
Shop equipment	222
Scientific equipment	114
Infrastructure - roads	204,135
Infrastructure - bridges	<u>20,306</u>
Total depreciation expense	<u>\$ 239,210</u>

NOTE 8 - RETAINAGES PAYABLE

The Division 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 Division. At June 30, 2002, retainages payable on contracts had been reduced by these amounts on deposit in such accounts by approximately \$13,006.

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Maturity Through</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>General Obligation Bonds</u>							
Payable From Tax Revenue:							
Better Highway Bonds	1973	5.625%- 6.10%	02/01/2006	\$ 30,620	\$ -	\$ 11,960	\$ 18,660
Safe Road Bonds	1998	4.30%- 5.25%	06/01/2023	204,080	-	-	204,080
Safe Road Bonds	1999	4.30%- 5.75%	06/01/2017	106,325	-	1,305	105,020
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	-	<u>110,000</u>	<u>8,220</u>	<u>101,780</u>
Total General Obligation Bonds				451,025	110,000	21,485	539,540
Bond Premium				<u>1,271</u>	<u>4,172</u>	<u>1,153</u>	<u>4,290</u>
Total general obligation bonds payable net of premium				<u>452,296</u>	<u>114,172</u>	<u>22,638</u>	<u>543,830</u>
Claims and judgments				11,200	595	6,700	5,095
Compensated absences				65,269	9,185	-	74,454
Other long-term				<u>320</u>	<u>-</u>	<u>320</u>	<u>-</u>
Total long-term obligations				<u>\$ 529,085</u>	<u>\$ 123,952</u>	<u>\$ 29,658</u>	<u>\$ 623,379</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments 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 \$28,168 for the year ended June 30, 2002. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and liquidated through debt service funds, are as follows:

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

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

	Compensated Absences	Claims and Judgments	General Obligation Bonds and Premium	Total
Short-term liability	\$ 18,232	\$ 1,000	\$ 22,875	\$ 42,107
Long-term liability	<u>56,222</u>	<u>4,095</u>	<u>520,955</u>	<u>581,272</u>
	<u>\$ 74,454</u>	<u>\$ 5,095</u>	<u>\$ 543,830</u>	<u>\$ 623,379</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.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2002
 (amounts expressed in thousands)

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

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

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

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

At June 30, 2002, approximately \$15,250 of tort claims and \$2,567 of construction claims, including non-incremental claims, were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$4,500, recorded in the government-wide Statement of Net Assets, based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Such claims will be recognized primarily as expenditures of the State Road Fund if, and when, they are approved for payment by the Legislature in accordance with legal statutes. Also included in claims are claims that have been settled in the court of claims and approved for payment through legislative action. These amounts total approximately \$595. During the normal course of operations, the Division may become subject to other litigation. Accordingly, no provision has been made in the financial statements for liabilities, if any, from such litigation.

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 10 - TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Division leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under these operating leases, which expire December 31, 2002 for rental payments of approximately \$1,796 annually. Management expects the leases to be renewed upon expiration.

During the year ended June 30, 2002 the Division incurred payroll related expenditures of approximately \$22,261 for employee health insurance benefits and approximately \$8,682 for employee workers' compensation benefits, which are paid into funds administered by the West Virginia Public Employees Insurance Agency and Workers' Compensation Fund, respectively.

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$507,817 at June 30, 2002.

The Division 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 Division expects such amounts, if any, to be immaterial to the financial position of the Division. The Division records these disallowed audit adjustments for questioned costs in the period the audit is finalized.

During the year ended June 30, 1989, the Division 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, 2002, \$2,295 of these bonds were outstanding and are considered defeased. Accordingly, the assets and liability for these defeased bonds have been excluded from the Division's financial statements.

NOTE 12 - RETIREMENT PLAN

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002
(amounts expressed in thousands)

NOTE 12 - RETIREMENT PLAN (Continued)

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 14% of annual covered payroll, including the Division's contribution of 9.5% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2002, 2001, and 2000 were \$15,717, \$15,275, and \$14,489, respectively, equal to the required contributions for each year.

NOTE 13 - RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM), 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.

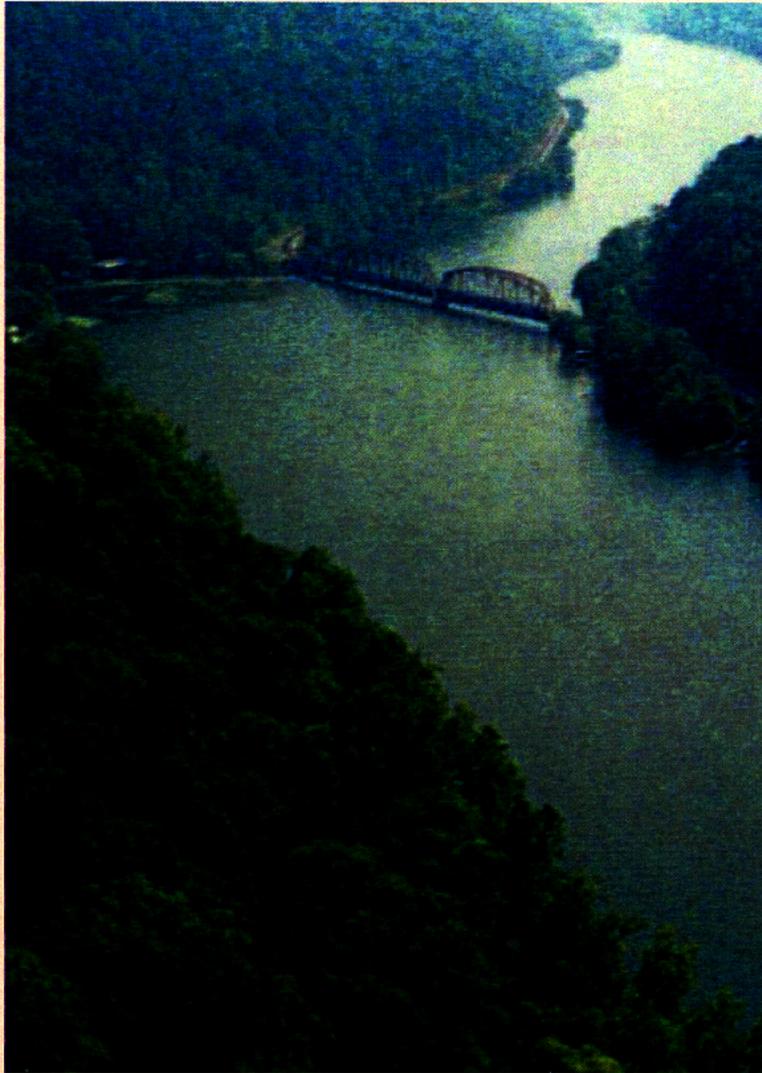
BRIM is a public entity risk pool that provides coverage for general, property, medical malpractice, and automobile liability. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The WCF provides coverage for work related accidents and is considered an insurance enterprise fund. The Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 9, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 9.

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

NOTE 14 - IMPACT OF FLOODS

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

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NEW RIVER OVERLOOK

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

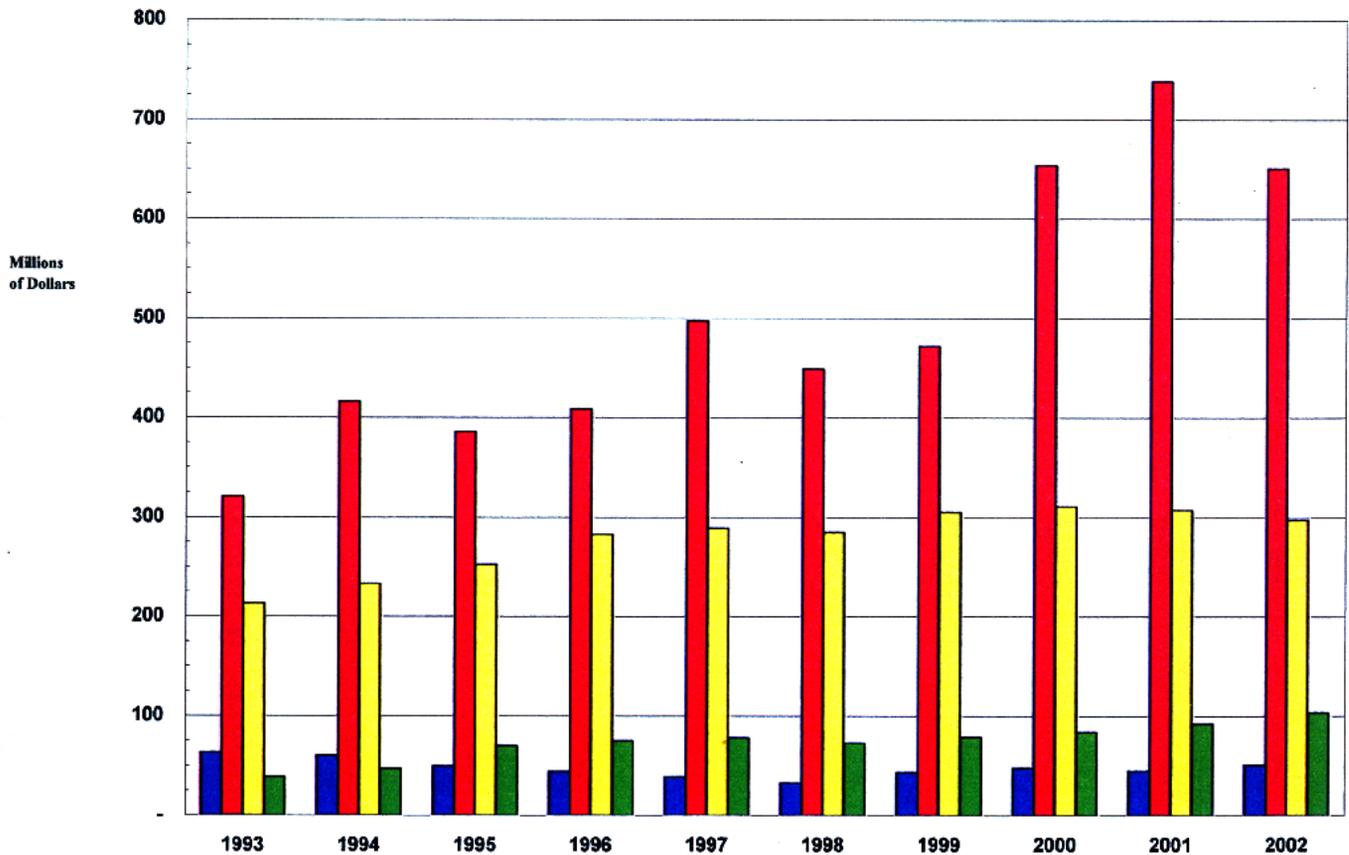
DIVISION OF HIGHWAYS



**TOTAL EXPENDITURES BY FUNCTION (All Funds)
1993 TO 2002**

(Amount expressed in thousands)

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt Service	\$63,112	\$60,353	\$49,648	\$44,017	\$38,645	\$32,866	\$43,455	\$47,526	\$44,925	\$50,790
Construction	320,423	416,229	385,613	408,272	497,106	448,851	471,784	653,659	738,607	650,662
Maintenance	213,163	232,855	252,222	282,382	288,648	284,821	305,062	310,786	307,207	297,190
Administrative/ Support	38,552	46,957	69,764	75,086	77,962	72,887	78,485	83,883	92,231	102,971
Total	\$635,250	\$756,394	\$757,247	\$809,757	\$902,361	\$839,425	\$898,786	\$1,095,854	\$1,182,970	\$1,101,613



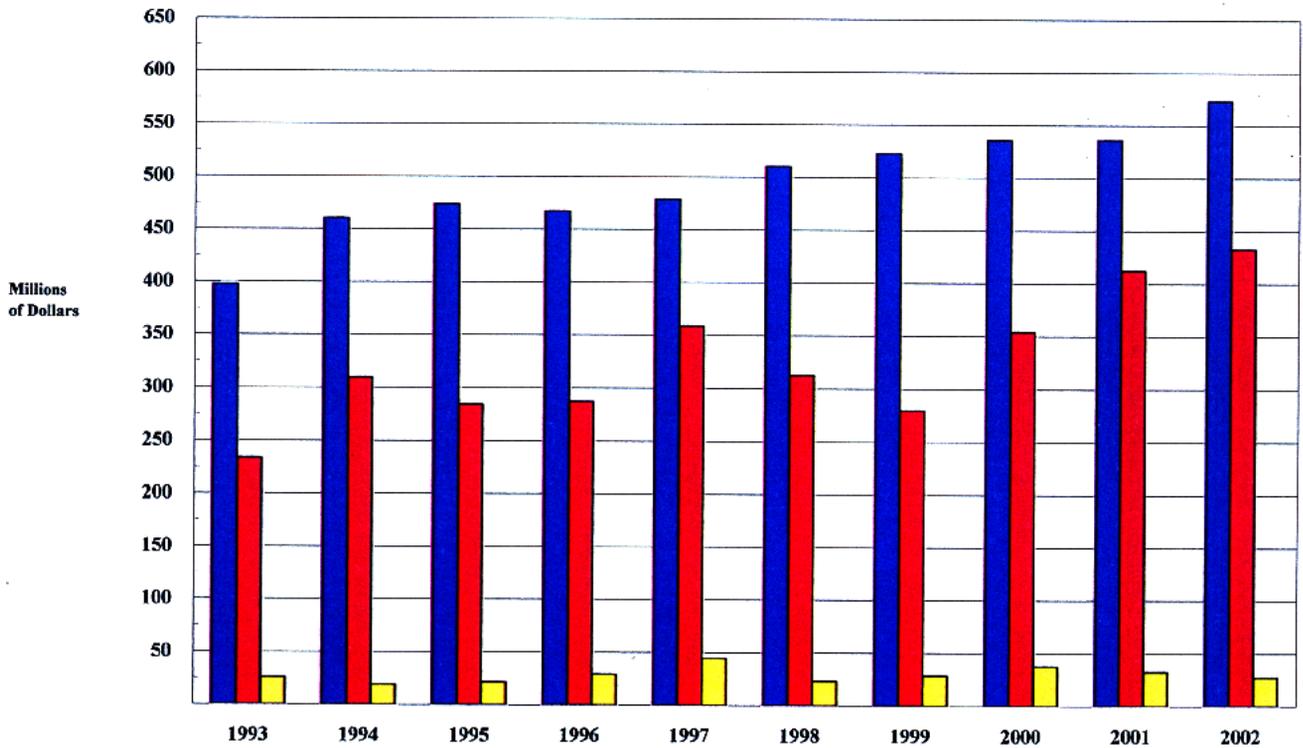
DIVISION OF HIGHWAYS



**TOTAL REVENUE BY SOURCE (All Funds)
1993 TO 2002**

(Amount expressed in thousands)

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Taxes and License Fees	\$397,409	\$460,369	\$473,842	\$467,288	\$478,913	\$510,011	\$522,672	\$535,534	\$535,898	\$572,989
Federal Aid	233,517	309,628	284,007	287,021	358,750	312,673	279,473	354,080	412,404	433,156
Miscellaneous	25,800	19,174	21,567	29,017	44,597	23,202	28,373	37,548	32,455	27,124
Total	\$656,726	\$789,171	\$779,416	\$783,326	\$882,260	\$845,886	\$830,518	\$927,162	\$980,757	\$1,033,269



DIVISION OF HIGHWAYS

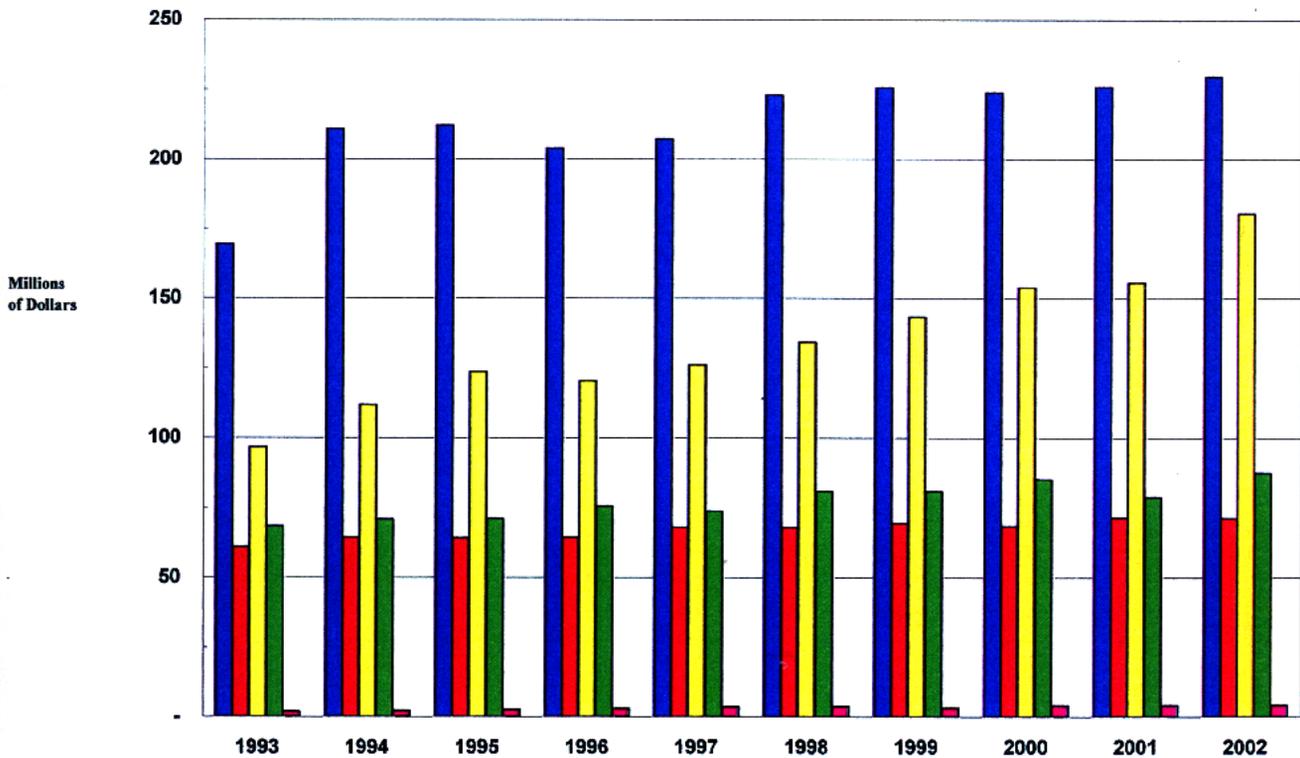


TAX AND LICENSE FEE REVENUE BY SOURCE ⁽¹⁾
1993 TO 2002

(Amount expressed in thousands)

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gasoline/ Motor Carrier	\$169,463	\$210,873	\$212,173	\$203,855	\$207,297	\$223,068	\$225,761	\$224,029	\$225,946	\$229,650
Motor Fuel	60,974	64,317	64,137	64,385	68,103	67,945	69,405	68,372	71,521	71,314
Automobile Privilege	96,703	111,882	123,723	120,455	126,157	134,354	143,356	153,927	155,623	180,472
Registration/ License Fees	68,357	70,949	71,122	75,552	73,831	80,928	80,935	85,222	78,745	87,380
Special Fees & Permits	1,912	2,348	2,687	3,041	3,525	3,716	3,215	3,984	4,063	4,173
Total	\$397,409	\$460,369	\$473,842	\$467,288	\$478,913	\$510,011	\$522,672	\$535,534	\$535,898	\$572,989

(1) As collected by State Road (General) Fund.



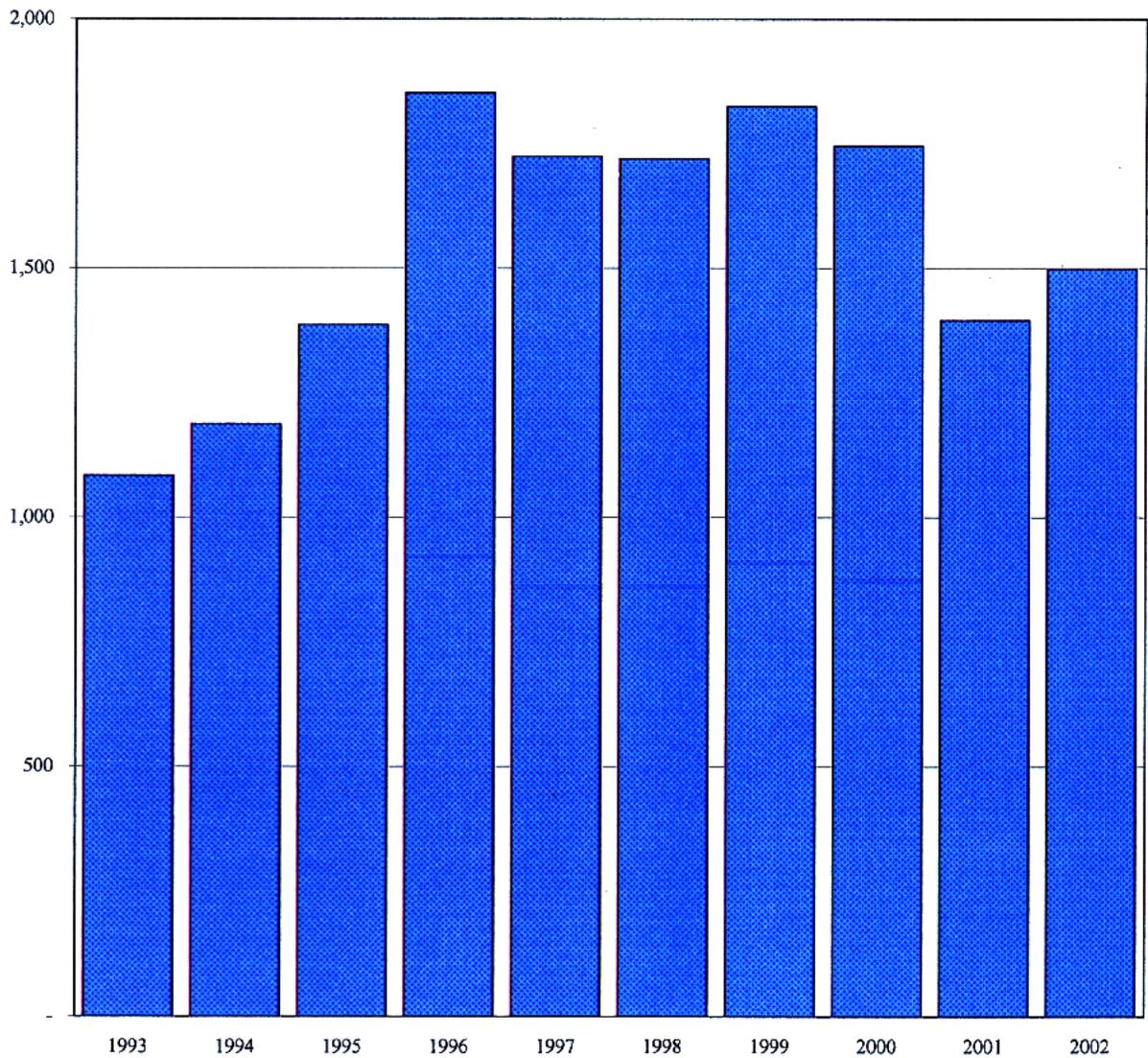
DIVISION OF HIGHWAYS



HIGHWAY CONSTRUCTION AND IMPROVEMENT
TOTAL PROJECTS AUTHORIZED
1993 TO 2002

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total Projects
Projects	1,084	1,188	1,387	1,852	1,725	1,720	1,825	1,746	1,396	1,499	15,422

Number of Projects



DIVISION OF HIGHWAYS



**HIGHWAY CONSTRUCTION AND IMPROVEMENT
TOTAL PROJECTS AUTHORIZED
1993 TO 2002**

	<i>Federal Aid (Number of Projects)</i>									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bond	0	0	0	0	0	0	3	5	0	0
Interstate Construction	0	0	1	0	0	0	0	8	2	9
Interstate Renovation	30	24	23	23	59	27	35	41	20	23
Non-Interstate Other	103	102	81	104	88	78	73	58	44	62
Appalachian Development	18	5	7	12	5	0	22	24	22	25
Timber Bridge	7	8	6	5	5	6	0	0	0	0
Other Bridge	53	43	53	49	56	42	44	58	14	62
Miscellaneous	68	108	41	259	213	69	103	132	78	172
Total	279	290	212	452	426	222	280	326	180	353
	<i>Non-Federal Aid (Number of Projects)</i>									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Contract Paving and Secondary Road Maintenance	468	526	545	672	663	716	574	615	522	448
Bridge Replacement and Renovation	79	65	94	85	77	93	61	65	50	73
Miscellaneous Bridge Work	36	33	54	66	58	47	77	59	44	44
Industrial Access Roads	7	10	8	14	8	12	11	15	6	15
Turnpike Refund	2	2	3	1	1	0	0	0	0	0
Bond	0	0	0	0	0	26	312	209	67	21
Roadway Renovation and Improvement	213	262	471	562	492	604	510	457	527	545
Total	805	898	1175	1400	1299	1498	1545	1420	1216	1146
GRAND TOTAL	1084	1188	1387	1852	1725	1720	1825	1746	1396	1499

TOTAL AUTHORIZED PROJECTS = 15,422

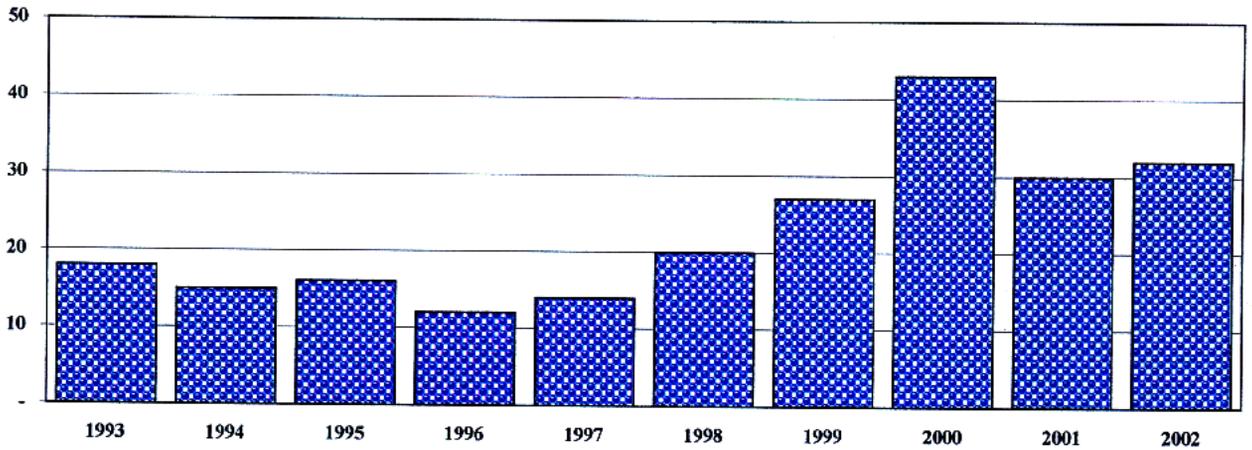
DIVISION OF HIGHWAYS



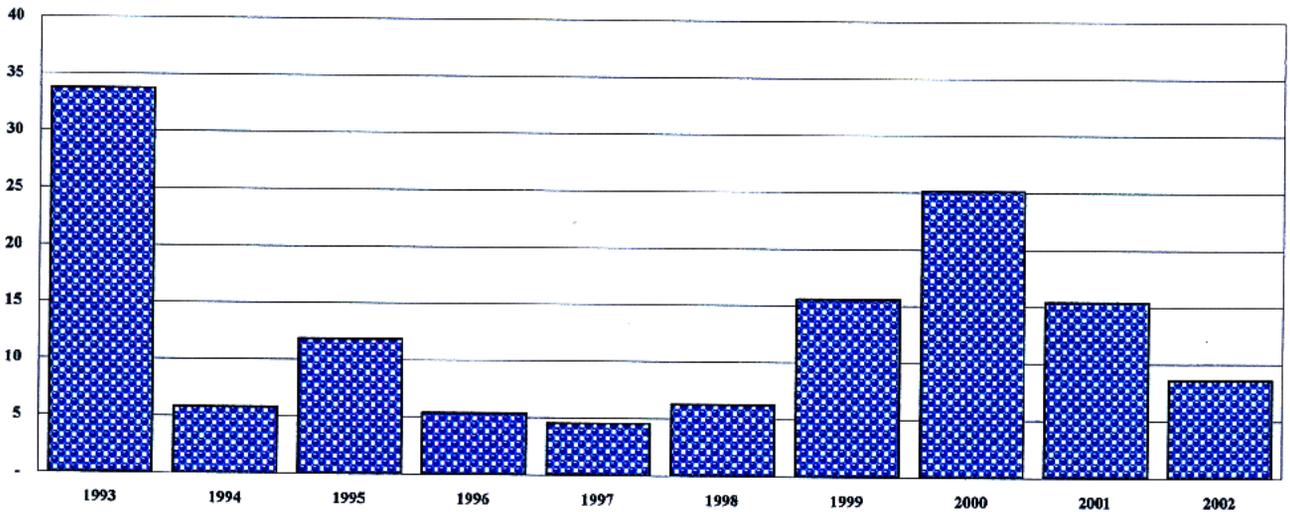
ROADWAY PROJECTS - SYSTEM EXPANSION ONLY
1993 TO 2002

Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Projects	18	15	16	12	14	20	27	43	30	32
Number of Miles	33.76	5.82	11.83	5.41	4.54	6.27	15.60	25.15	15.42	8.60

Number of Projects



Number of Miles



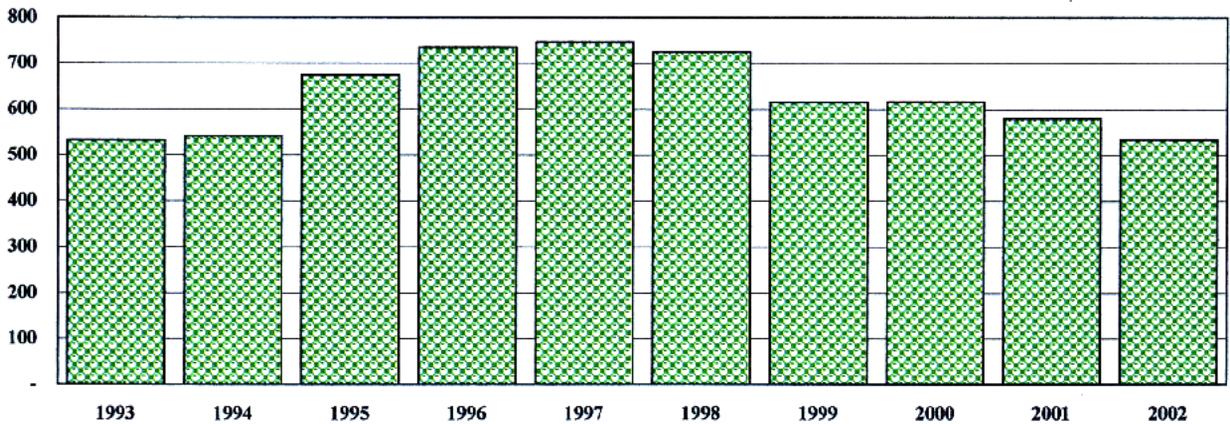
DIVISION OF HIGHWAYS

ROADWAY RESURFACING PROJECTS
1993 TO 2002

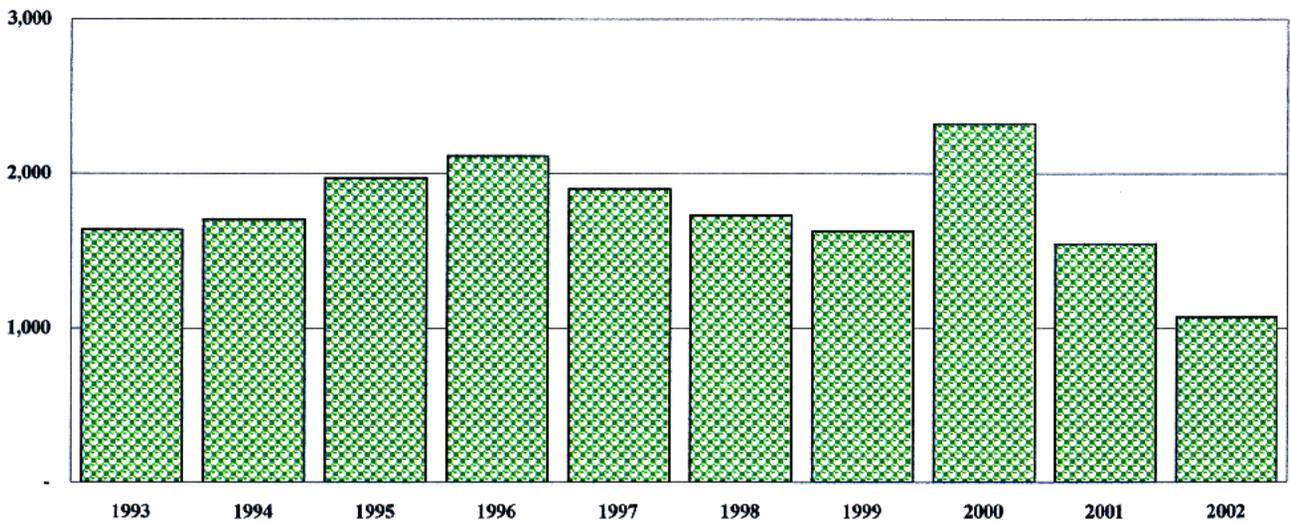


Fiscal Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Projects	532	541	674	735	746	725	615	616	580	534
Number of Miles	1,637	1,704	1,970	2,114	1,902	1,730	1,629	2,325	1,545	1,071

Number of Projects



Number of Miles



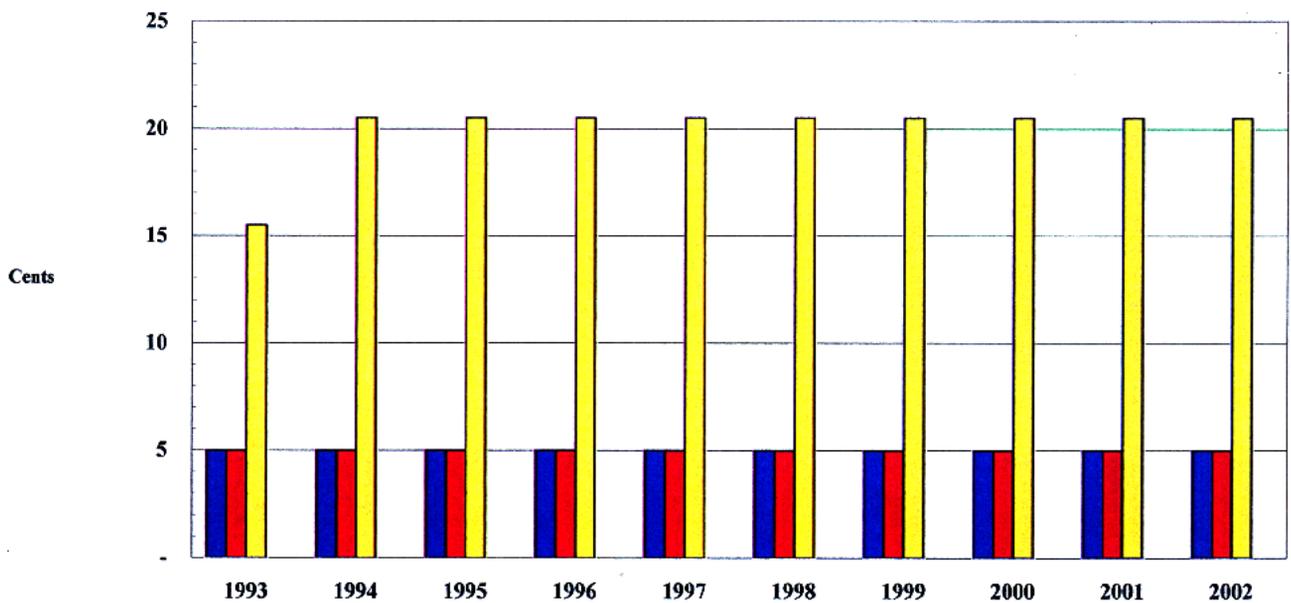
DIVISION OF HIGHWAYS



FUEL AND PRIVILEGE TAX RATES
1993 TO 2002

Fiscal Year		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Wholesale Motor Fuel(1) (cents per dollar)		5	5	5	5	5	5	5	5	5	5
Automobile Privilege(2) (cents per dollar)		5	5	5	5	5	5	5	5	5	5
Gasoline (cents per gallon)		15.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5

- (1) Gasoline and special fuel furnished or delivered within West Virginia, or purchased outside and used within West Virginia, is subject to a wholesale tax at five percent of the average wholesale price
- (2) A tax equal to five percent of the value of said motor vehicle at the time of this certification.



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

TOTAL HIGHWAY MILEAGE BY CATEGORY

Total Road System

Interstate Highway*	555
U.S. Routes	1,828
W.V. Routes	3,602
County Routes	28,856
Other	3,583
 Total Miles	 38,424

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

* Includes 87 miles of the West Virginia Turnpike

Federal Aid Routes

	Rural Miles	Urban Miles
<u>Interstate Highways (Part of National Highway System) *</u>	457 **	97 ***
<p>Interstate Highways are multi-lane, fully access-controlled routes that serve the national defense, and connect the nation's principal metropolitan areas, cities, and/or industrial centers.</p> <p>** Includes 4 miles of one way connecting ramps *** Includes 1 mile of one way connecting ramps</p>		
<u>Other National Highway System</u>	1,077	118
<p>Other major routes, including most principal arterials that are the most important to interstate travel and national defense, roads that connect with other modes of transportation, and roads essential for international commerce.</p>		
<u>Other Federal-Aid Highways</u>	7,616	986
<p>All other roads on which federal Highway funds may be expended.</p>		
Sub-total miles	9,150	1,201
 Total Miles	 10,351	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS

**Ratio Of Annual Debt Service Expenditures
To Total General Governmental Expenditures
Last Ten Fiscal Years**
(amount expressed in thousands)

Fiscal Year	1993 (a)	1994 (b)	1995	1996	1997	1998	1999	2000	2001	2002 (c)
Principal	\$44,035	\$47,043	\$38,785	\$35,055	\$31,325	\$28,010	\$28,920	\$28,170	\$20,665	\$21,485
Interest	\$19,077	\$13,310	\$10,863	\$8,962	\$7,320	\$4,856	\$14,535	\$19,356	\$24,260	\$28,508
Total Debt Service	\$63,112	\$60,353	\$49,648	\$44,017	\$38,645	\$32,866	\$43,455	\$47,526	\$44,925	\$49,993
Total General Governmental Expenditures	\$565,738	\$696,042	\$707,599	\$756,740	\$863,716	\$806,559	\$853,331	\$1,048,327	\$1,138,045	\$1,041,017
Ratio of Debt Service to General Governmental Expenditures	11.16%	8.67%	7.02%	5.82%	4.47%	4.07%	5.09%	4.53%	3.95%	4.80%

(a) Includes retirement of \$570,000 of Toll Bridge Revenue Bonds and \$7,549,751 of Capital Lease and Installment Purchase Obligations

(b) Includes retirement of \$7,313,418 of Capital Lease and Installment Purchase Obligations

(c) Does not include bond issuance, coupon redemption/bank costs, or premium amortization