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

AUDITED FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2007
AND
INDEPENDENT AUDITORS' REPORTS

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#8 Stonecrest Drive
Huntington, WV 25701

HAYFLICH & STEINBERG

Certified Public Accountants

Phone: (304) 697-5700
Fax: (304) 697-5704
www.hayflich.net

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the West Virginia Department of Transportation's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the West Virginia Parkways, Economic Development and Tourism Authority, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the West Virginia Parkways, Economic Development and Tourism Authority is based solely on the report of the other auditors.

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

As discussed in Note 1, the financial statements of the West Virginia Department of Transportation are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation of the State of West Virginia that is attributable to the transactions of the West Virginia Department of Transportation. They do not purport to, and do not, present fairly, the financial position of the State of West Virginia as of June 30, 2007 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the West Virginia Department of Transportation, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the State Road Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 6, 2007 on our consideration of the West Virginia Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Hayfield & Steinly, CPA's, PLLC
December 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the West Virginia Department of Transportation (Department) annual financial report presents our discussion and analysis of the Department's financial performance during the fiscal year that ended June 30, 2007. This section introduces the basic financial statements and provides an analytical overview of the Department's financial activities. Please read it in conjunction with the Department's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Assets - The Department's total combined net assets are $6.9 billion as of the close of fiscal year 2007.

Changes in Net Assets - During the year the Department's expenses were $283 million less than the $1,100 million generated in revenues for governmental activities. This is a decrease compared to the prior year, when expenses were $296 million less than revenues.

Revenues and Expenses - Total revenues decreased by $12 million or 1.08%. Total expenses increased by $1 million or .10%. There were no significant changes in the programs carried out by the Department during the year.

Governmental Funds - Fund Balances - As of the close of fiscal year 2007, the Department's governmental funds reported combined total fund equity of $406 million, an increase of $159 million in comparison to the prior year. Of this total amount, $371 million represents the "unreserved fund balances" with substantially all being in the general fund. This is approximately 35.24 % of the total governmental fund expenditures for the year.

Long-term Debt - The Department's total outstanding general obligation bonds, net of bond premiums, decreased by $18 million. The Department sold two issues of Surface Transportation Improvements Special Obligation Notes increasing debt by $109 million for a net increase in debt of $91 million or 20.31%

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

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

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Assets

The following condensed financial information was derived from the government-wide statement of net assets and summarizes the Department's net assets, excluding discretely presented component units, as of June 30, 2007 and 2006 (amounts in thousands).

Net Assets as of June 30

	2007	2006	% Change
Total current assets	$ 496,852	$ 329,630	50.73%
Capital assets, net of accumulated depreciation	7,163,116	6,953,795	3.01%
Other non-current assets	8,004	8,408	(4.80%)
Total assets	7,667,972	7,291,833	5.16%
Current liabilities	151,211	121,996	23.95%
Long term liabilities	591,018	527,506	12.04%
Total liabilities	742,229	649,502	14.28%
Invested in capital assets, net of related debt	6,592,210	6,475,338	1.80%
Restricted	13,975	8,512	64.18%
Unrestricted	319,558	158,481	101.64%
Total net assets	$ 6,925,743	$ 6,642,331	4.27%

The largest component (95.18%) of the Department's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure and others) less any related debt outstanding (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. The Department uses these capital assets to provide services to the citizens and businesses in the State; consequently, these net assets are not available for future spending. The remaining portion, unrestricted net assets, may be used at the Department's discretion.

Condensed Statement of Activities

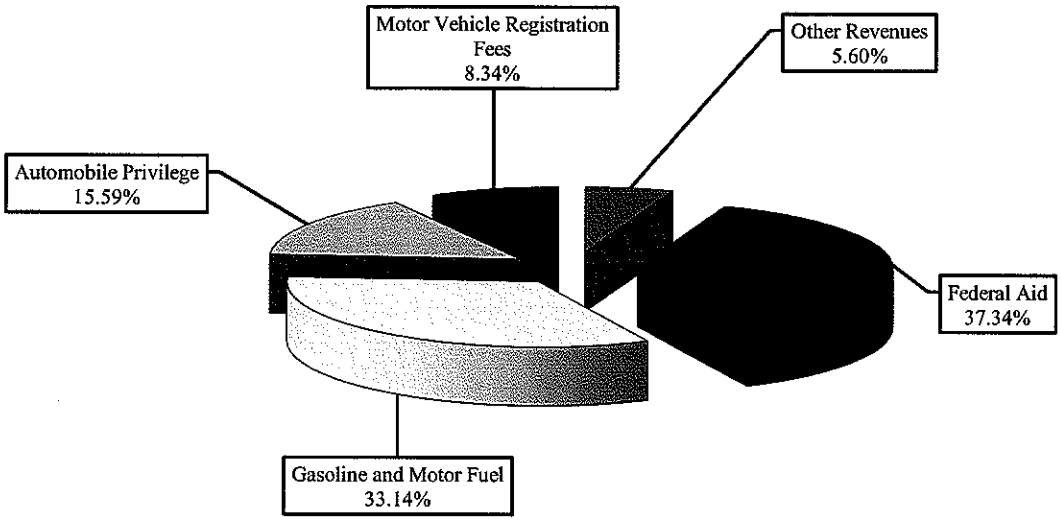
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets, excluding discretely presented component units, changed during the fiscal year (amounts in thousands):

	2007	2006	% Change
Revenues			
Taxes	$ 536,796	$ 501,714	6.99%
Investment and interest income	9,828	4,701	109.06%
Payments from primary government	3,541	3,904	(9.30%)
Miscellaneous revenues	38,970	53,716	(27.45%)
Total general revenues	589,135	564,035	4.45%
Federal aid	410,669	450,743	(8.89%)
Charges for service	100,120	97,160	3.05%
Total program revenues	510,789	547,903	(6.77%)
Total revenues	1,099,924	1,111,938	(1.08%)
Expenses			
Road maintenance	338,550	316,475	6.98%
Other road operations	365,796	366,874	(0.29%)
General and administration	85,938	108,047	(20.46%)
Bond interest and premium	22,977	21,283	7.96%
Unallocated depreciation	3,251	3,030	7.29%
Total expenses	816,512	815,709	0.10%
Change in net assets	283,412	296,229	(4.33%)
Net assets, beginning	6,642,331	6,346,102	4.67%
Net assets, ending	$ 6,925,743	$ 6,642,331	4.27%

Over time, increases and decreases in net assets measure whether the Department's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by $283 million or 4.27% percent.

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

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



Total revenues decreased by approximately $12 million. Total tax revenues increased by approximately $35 million. Federal aid revenue decreased by approximately $37 million or 8.28%. The following summarizes revenues for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

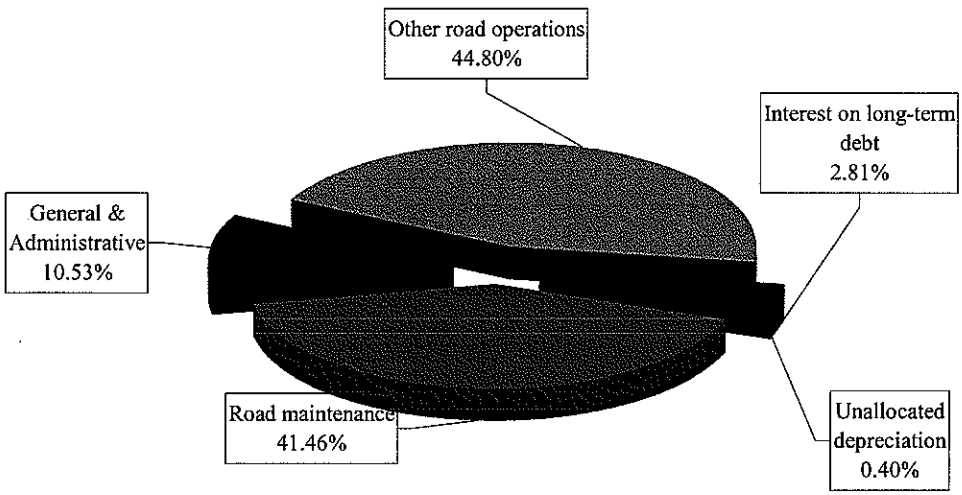
	2007	2006	Increase (decrease)	% Increase (decrease)
Gasoline and motor fuel excise tax	$ 364,550	$ 330,538	$ 34,012	10.29%
Aviation fuel	817	692	125	18.06%
Industrial access roads	3,126	3,016	110	3.65%
Automobile privilege	171,429	170,484	945	.55%
Motor vehicle registration fees	91,731	92,870	(1,139)	(1.23%)
Special fees and permits	5,263	4,290	973	22.68%
Federal aid	410,669	447,727	(37,058)	(8.28%)
Investment and interest income	9,828	4,701	5,127	109.06%
Payments from primary government	3,541	3,904	(363)	(9.30%)
Miscellaneous revenues	38,970	53,716	(14,746)	(27.45%)
	$ 1,099,924	$ 1,111,938	$ (12,014)	(1.08%)

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

Although tax collections grew during the past five fiscal years, they did not significantly exceed official estimates. From fiscal year 2003 through fiscal year 2007, actual cash revenues exceeded estimates by only 1.75%. While those extra dollars allowed the Department to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the agency to adjust its budgets for inflationary increases. In FY 2008, Motor Fuel Tax revenues are projected to be approximately 14% above FY 2007 level due to the increase in the variable component of the tax, but the other revenue sources will remain relatively flat. Although the agency will be able to increase its budgets somewhat, it is anticipated that nondiscretionary costs will continue to rise. Consequently, many programs that are operated by the Department will experience little, if any, real growth in the foreseeable future.

The Department also relies on federal funds as a source of revenue. The federal aid is obtained in the form of reimbursable grants. Federal transportation legislation and special spending authorizations provide funds that are available for obligation by the Federal Government in specific years, and the Department expects to continue to fully obligate available funds, thus ensuring that it captures all federal dollars. Revenue under these grants is recognized when expenditures occur on specific projects that have qualified for federal participation. Federal funds received during 2007 were authorized under the new Highway Transit Bill, the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

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



Total expenses increased by approximately $1 million or .10%. The following summarizes expenditures for the years ended June 30, 2007 and June 30, 2006 (amounts in thousands):

	2007	2006	Increase (decrease)	% Increase (decrease)
Road maintenance	$ 338,550	$ 316,475	$ 22,075	6.98%
Other road operations	365,796	366,874	(1,078)	(0.29%)
General and administration	85,938	108,047	(22,109)	(20.46%)
Bond interest and premium	22,977	21,283	1,694	7.96%
Unallocated depreciation	3,251	3,030	221	7.29%
	$ 816,512	$ 815,709	$ 803	0.10%

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

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

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

Discretely Presented Component Units:

The State Rail Authority's operating revenues are not sufficient to provide adequate cash flows to meet regular operating needs. During the year ended June 30, 2007 the cash flows from operations were $(157) thousand compared to $(170) thousand in the prior year. The Authority funds capital projects and net operating deficits through general revenue appropriations from the State Legislature. Appropriations received totaled $3.2 million, the same as the prior year.

The West Virginia Parkways, Economic Development and Tourism Authority (Parkways) relies on toll revenues, revenues generated through its economic development activities (primarily the Caperton Center) and the operation of travel plaza restaurants and gas stations. Total revenues from these sources decreased $3.4 million or 4.94% for the fiscal year ended June 30, 2007. Operating expenses decreased by $1 million or 1.50% for the same period primarily due to decreased maintenance costs associated with the mild winter. The Authority experienced net losses during fiscal years ended June 30, 2007 and 2006 but generated positive cash flows from operating activities in excess of $26 million in 2007 and $28 million 2006.

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

FINANCIAL ANALYSIS OF THE DEPARTMENT'S MAJOR FUNDS

At June 30, 2007, the Department reported fund balances of $406 million. Of this total amount, $371 million, 91.46%, constitutes unreserved fund balances, which are available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it is dedicated for various commitments, such as inventories.

State Road Fund

The State Road Fund is the Department's largest Fund, and is used to account for all activities not accounted for in other funds. At the end of the 2007 fiscal year, unreserved fund balance of the Fund was $273 million and reserved fund balance was $33 million. The total fund balance increased $74 million during the year primarily due to a combination of reduced expenditures and increased Motor Fuel Tax revenue, resulting from the $.045 increase in the variable component of the fuel tax rate.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE); a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other federal-aid projects. The exception is the reimbursement process; reimbursement of GARVEE project costs occurs when debt service is due rather than when construction costs are incurred. To allow for effective use of federal obligation authority, a state may request partial conversion of GARVEE projects to coincide with GARVEE debt service payments. In West Virginia, under terms of the Memorandum of Agreement between the Federal Highway Administration and the Division of Highways, the yearly debt service must be the first obligation in the federal fiscal year. The current GARVEE note sales are for the construction of portions of the US 35 corridor. At June 30, 2007 the balance of $82 represented unexpended note funds associated with the 2006A and 2007A note issues.

State Road Fund and Budgetary Highlights

The Department is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, privilege tax on consumer purchases of motor vehicles, and federal funding generated from motor fuel purchases. Revenues are affected by state and national economic conditions, world events affecting availability and pricing of motor fuel, and fuel consumption rates for motor vehicles. Although average fuel consumption rates for motor vehicles have changed little over the past several years, any improvements in fuel efficiency would have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. For five of the previous six years, tax and fee revenue collections increased over the previous year. Tax and fee revenue collections increased by approximately $36 million in 2007: they increased $2 million during the previous year.

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

			2007 vs. 2006	
	2007	2006	Change	%Change
Gasoline, and motor fuel excise tax	$ 364,550	$ 330,538	$ 34,012	10.29%
Motor vehicle registration	92,422	92,681	(259)	(0.28%)
Privilege tax	171,429	170,484	945	0.55%
Other taxes and fees	8,389	7,306	1,083	14.82%
	$ 636,790	$ 601,009	$ 35,781	5.95%

On January 1, 2005, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate that is calculated yearly. On January 1, 2007, the variable rate rose from 6.5 cents to 11 cents per invoiced gallon.

Automobile privilege tax collections were positively impacted from 2002 through 2007 by low interest rates and significant incentives offered by automobile manufacturers. The automobile privilege taxes increased $1 million in 2007.

The Department's federal revenue for budgetary purposes for fiscal year 2007 was $390 million, to be used primarily for design, right-of-way and construction of Corridor D, Corridor H, WV 9, US Route 35 and other major corridors including King Coal Highway, WV 16, and WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	2007	2006	Change	%Change
Federal reimbursement - budgeted funds	$ 386,875	$ 423,979	$ (37,104)	(8.75%)
Federal Reimbursement – Surface Transportation Improvements Special Obligation Notes	1,207	-	1,207	100.00%
Federal reimbursement - emergency funds	4,451	5,604	(1,153)	(20.57%)
Total federal aid	$ 392,533	$ 429,583	$ (37,050)	(8.62%)

Although it is anticipated that revenues will increase slightly in the next fiscal year, the Department's revenue increases are not projected to keep pace with increases in costs related to retirement, health insurance, and other increases that are non-discretionary in nature. The fiscal 2008 budget reflects a budgeted decrease in fund balance of approximately $17 million. Management is taking all necessary steps to ensure that the fund balance of the Department is maintained at levels that are adequate to ensure the soundness of the Department and is confident that adequate discretionary items exist to permit the Department to continue to operate in a fiscally sound manner. Under SAFETEA-LU, the Department annually receives an average of $316 million in federal funding. In order to capture that federal aid the Department needs $58.2 million annually in state matching funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Primary Government:

As of June 30, 2007, the Department had invested $7.2 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled $278 million.

The $209 million increase in capital assets, net of depreciation, reflects the nature of the State's road system. While the Department continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by $278 million in depreciation. The Department expended $490 million dollars during the year ended June 30, 2007 for additions to capital assets, including infrastructure. Of this amount, $469 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 $344 million were reclassified from construction in process to roads and bridges. Major construction expenditures during the year included continued construction related to Corridor H in Hardy County, Corridor D in Wood County, upgrade of WV 10 in Logan County, widening of I-64, upgrade of WV route 9 in the Eastern Panhandle, upgrade of US route 35 in Putnam County, upgrade of US Route 52 in Mingo County, upgrade of WV 121 in Raleigh County and continued environmental studies on various projects in process.

Discretely Presented Component Units:

As of June 30, 2007, the discretely presented component units had invested $554 million, net of accumulated depreciation, in capital assets which primarily consisted of Rail Property, Toll Road infrastructure and the Caperton Center. Depreciation charges for the fiscal year totaled $31 million. Capital assets declined by approximately 2.21% as $19 million in capital improvements were offset by the current year's depreciation.

Long-term Debt

Primary Government:

The Department ha s 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, 2007, the Department had $430 million in outstanding bonds. The amount outstanding decreased by $18 million (4.05%) due to net principal payments.

The Department has been authorized to issue revenue notes in the amount of $200 million by constitutional amendment. The Department issued revenue notes in the amount of $76 million in October 2006 and $33 million in April 2007. It is anticipated that another estimated $91 million will be issued during fiscal year 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue

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

Issue	Status of insurance	Bond Rating		Amount (in thousands)
Safe Roads 98A - All Bonds maturing on or before June 1, 2023	Insured by FGIC	Fitch: Moody's: S&P:	AAA Aaa AAA	$ 51,510
Safe Roads 99A - All Bonds maturing on or before June 1, 2017	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-	4.470
Safe Roads 01A - Bonds maturing between June 1, 2006 to 2013	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA	57,490
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Not Insured	Fitch: Moody's: S&P:	AA- Aa3 AA-	860
Safe Roads 05A - Bonds maturing on or before June 1, 2025.	Insured by FSA	Fitch: Moody's: S&P:	AAA Aaa AAA	315,515
Surface Transportation Improvements Special Obligation Notes (Garvee 2006A) – Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept.1 2007 and Sept. 1, 2008 Insured by FSA – notes maturing after Sept. 1, 2008	Fitch: Moody's: S&P:	AAA Aaa AAA	75,970
Surface Transportation Improvements Special Obligation Notes (Garvee 2007A) – Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept.1 2007 and Sept. 1, 2008 Insured by FSA – notes maturing after Sept. 1, 2008	Fitch: Moody's: S&P:	AAA Aaa AAA	33,190
				$ 539,005

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

Discretely Presented Component Units:

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

The amount of Parkways' outstanding debt is approximately $9.3 million less at June 30, 2007 than it was in 2006. Parkways has entered into various derivative financial instruments, interest rate swap agreements and forward swap agreements, to enable them to issue variable rate debt instruments and mitigate risk associated with changes in interest rates.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF NET ASSETS
JUNE 30, 2007
(amounts expressed in thousands)

	Primary Government	Component Units	
	Governmental Activities	Parkways, Economic Development and Tourism Authority	State Rail Authority
ASSETS			
Current assets			
Cash and cash equivalents	$ 295,213	$ 17,648	$ 1,920
Restricted Cash and cash equivalents	50	-	565
Short term investments	-	5,266	-
Accounts receivable, net	87,966	1,594	22
Taxes receivable	78,776	-	-
Accrued interest receivable	-	329	-
Due from other State of West Virginia agencies	157	-	709
Inventories	34,639	2,360	51
Other assets	51	944	8
Total current assets	496,852	28,141	3,275
Non-current assets			
Capital assets, net of accumulated depreciation			
Land - non-infrastructure	15,701	2,754	4,836
Land improvements	4,404	-	-
Land improvements-work in progress	598	-	-
Buildings	65,195	51,386	-
Buildings - construction in progress	2,041	-	-
Furniture and fixtures	473	-	138
Rolling stock	58,860	4,105	464
Scientific equipment	620	-	-
Shop equipment	70	-	-
Roads	3,608,137	-	-
Bridges	1,286,064	-	-
Land - infrastructure	844,674	50,493	-
Toll road	-	409,034	-
Rail property	-	-	30,416
Work in progress	1,276,279	-	-
Total capital assets	7,163,116	517,772	35,854
Non-current investments	-	21,396	-
Non current taxes receivable	5,174	-	-
Other non-current assets	2,830	2,000	-
Total assets	7,667,972	569,309	39,129
LIABILITIES			
Current liabilities			
Accounts payable	53,817	1,028	714
Retainages payable	9,047	-	-
Accrued payroll and related liabilities	16,994	5,294	118
Due to other State of West Virginia agencies	2,911	-	38
Due to other States IRP	4,098	-	-
Accrued interest payable	3,279	712	-
Deferred revenue	-	975	-
Current maturities of long term obligations	61,065	7,202	425
Total current liabilities	151,211	15,211	1,295
Non-current liabilities			
Claims and judgments	5,420	-	-
Compensated absences	56,404	2,557	133
Long-term debt obligations	529,194	88,115	-
Total non-current liabilities	591,018	90,672	133
Total liabilities	742,229	105,883	1,428
NET ASSETS			
Invested in capital assets, net of related debt	6,592,210	422,455	35,429
Restricted			
Restricted by enabling legislation	13,975	-	-
Trust Indenture	-	39,246	-
Unrestricted	319,558	1,725	2,272
Total net assets	$ 6,925,743	$ 463,426	$ 37,701

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

	Primary Government				Component Units
		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Assets	
Primary Government					
Government activities					
Road maintenance					
Expressway, trunkline & feeder & SLS	$ 262,684	$ -	$ -	$ (262,684)	$ -
Contract paving & secondary roads	42,785	-	-	(42,785)	-
Small bridge repair & replacement	14,002	-	-	(14,002)	-
Litter control program	1,663	-	-	(1,663)	-
Depreciation	17,416	-	-	(17,416)	-
Other road operations					
Interstate highways	11,514	-	56,801	45,287	-
Appalachian highways	3,994	-	93,552	89,558	-
Other federal aid programs	82,182	-	260,316	178,134	-
Non federal aid improvements	9,407	-	-	(9,407)	-
Industrial access roads	1,407	3,126	-	1,719	-
Depreciation	257,292	-	-	(257,292)	-
General and administration					
Support and administrative operations	53,688	5,263	-	(48,425)	-
Claims	(3,000)	-	-	3,000	-
Costs associated with DMV	35,250	91,731	-	56,481	-
Bond interest and premium	22,977	-	-	(22,977)	-
Unallocated depreciation	3,251	-	-	(3,251)	-
Total primary government	$ 816,512	$ 100,120	$ 410,669	(305,723)	-
Component units					
Parkways, Economic Development and Tourism Authority	$ 75,331	$ 65,822	$ -	-	(9,509)
State Rail Authority	3,559	2,121	-	-	(1,438)
Total component units	$ 78,890	$ 67,943	$ -	-	(10,947)
General revenues					
Taxes:					
Gasoline and motor carrier				364,550	-
Aviation fuel				817	-
Automobile privilege				171,429	-
Investment and interest income				9,828	2,814
Gain (loss) on sale of capital assets				-	(95)
Payments from primary government				3,541	3,177
Miscellaneous revenues				38,970	-
Total general revenues				589,135	5,896
Change in net assets				283,412	(5,051)
Net assets, beginning				6,642,331	506,178
Net assets, ending				$ 6,925,743	$ 501,127

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets				
Cash and cash equivalents	$ 182,242	$ 89,420	$ 23,551	$ 295,213
Restricted cash and cash equivalents	50	-	-	50
Receivables	86,894	-	1,072	87,966
Taxes receivable	74,562	-	-	74,562
Due from other State of West Virginia agencies	3,143	-	-	3,143
Due from other funds / agencies	192	-	-	192
Inventories	33,259	-	1,380	34,639
Other assets	-	-	51	51
Total assets	$ 380,342	$ 89,420	$ 26,054	$ 495,816
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 45,652	$ 7,210	$ 955	$ 53,817
Retainages payable	9,047	-	-	9,047
Accrued payroll and related liabilities	16,866	-	128	16,994
Due to other State of West Virginia agencies	2,782	-	3,115	5,897
Due to other states	-	-	4,098	4,098
Deferred revenue	-	-	-	-
Due to other funds / agencies	-	192	-	192
Total liabilities	74,347	7,402	8,296	90,045
Fund balances				
Reserved for inventories	33,259	-	1,380	34,639
Unreserved, undesignated reported in special revenue fund	272,736	82,018	16,378	371,132
Total fund balances	305,995	82,018	17,758	405,771
Total liabilities and fund balances	$ 380,342	$ 89,420	$ 26,054	$ 495,816

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007
(amounts expressed in thousands)

Total fund balances - governmental funds		$	405,771
Amounts reported for governmental activities in the statement of net assets are different because:			
Certain receivables will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.			9,388
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land - non infrastructure	$ 15,701		
Land improvements- non infrastructure	4,404		
Land improvements- work in progress	598		
Buildings	65,195		
Buildings - construction in progress	2,041		
Furniture and Fixtures	473		
Rolling Stock	58,860		
Scientific Equipment	620		
Shop Equipment	70		
Roads	3,608,137		
Bridges	1,286,064		
Infrastructure Land	844,674		
Work in process	1,276,279		7,163,116
Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.			2,830
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Accrued interest payable	(3,279)		
Claims and judgments	(6,050)		
Compensated absences	(75,575)		
Long-term debt obligations	(570,458)		(655,362)
Net assets of governmental activities		$	6,925,743

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

	State Road Fund (Special Revenue)	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Gasoline and motor carrier	$ 364,550	$ -	$ -	$ 364,550
Aviation fuel			817	817
Automobile privilege	171,429	-	-	171,429
Industrial access	3,126	-	-	3,126
License, fees and permits				
Motor vehicle registrations and licenses	86,840	-	5,582	92,422
Special fees and permits	5,263	-	-	5,263
Federal aid	391,326	1,207	18,136	410,669
Investment and interest income, net of arbitrage rebate	6,879	2,773	176	9,828
Payments from primary government	-	-	3,541	3,541
Miscellaneous revenues	37,459	-	1,511	38,970
	1,066,872	3,980	29,763	1,100,615
Expenditures				
Current				
Road maintenance				
Expressway, trunkline and feeder, state and local services	258,720	-	-	258,720
Contract paving and secondary roads	42,785	-	-	42,785
Small bridge repair and replacement	17,100	-	-	17,100
Litter control program	1,663	-	-	1,663
Support and administrative operations	55,911	-	26,503	82,414
Division of Motor Vehicles operations	34,754	-	-	34,754
Claims	144	-	-	144
Capital outlay and other road operations				
Road construction and other road operations				
Interstate highways	70,926	-	-	70,926
Appalachian highways	132,747	-	-	132,747
Other federal aid programs	315,798	32,852	-	348,650
Nonfederal aid improvements	20,365	-	-	20,365
Industrial access road	1,407	-	-	1,407
Debt service				
Principal	18,150	-	-	18,150
Interest	22,235	1,207	-	23,442
Bond issuance cost	-	-	-	-
	992,705	34,059	26,503	1,053,267
Excess (deficiency) of revenues over expenditures	74,167	(30,079)	3,260	47,348
Other financing sources (uses				
Proceeds from Bond issues	-	112,097	-	112,097
Fund balances, beginning of year	231,828	-	14,498	246,326
Fund balances, end of year	$ 305,995	$ 82,018	$ 17,758	$ 405,771

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

Net change in fund balances - total governmental funds	$	159,445
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of $490,171 exceeded depreciation of ($277,959) in the current period.		212,212
In the statement of activities only the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in the net assets differs from the change in fund balance by the undepreciated cost of the assets sold.		(2,891)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(93,947)
Revenues that were recognized in a prior year in the statement of activities but did not provide current financial resources until the current year.		(692)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount by which the decrease in compensated absences of $5,676, accretion of bond premiums of $2,243 and decrease in claims of $3,144, exceeded the increase in interst payable of ($1,427), and debt issue costs of ($351).		9,285
Change in net assets of governmental activities	$	283,412

The accompanying notes are an integral part of the 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
FOR THE YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	$ 290,000	$ 25,000	$ 315,000	$ 349,172	$ 34,172
Automobile privilege	175,686	(7,264)	168,422	173,306	4,884
Motor vehicle registrations and licenses	88,008	-	88,008	87,058	(950)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,034)	(34)
Federal aid	485,177	36,112	521,289	389,643	(131,646)
Miscellaneous revenues	10,664	1,285	11,949	14,164	2,215
	1,046,535	55,133	1,101,668	1,010,309	(91,359)
Expenditures					
Road construction and other road operations					
Interstate highways	84,000	(4,000)	80,000	64,077	15,923
Appalachian highways	150,000	-	150,000	120,405	29,595
Other federal aid programs	325,700	50,000	375,700	314,362	61,338
Nonfederal aid construction	25,000	8,000	33,000	19,603	13,397
Road maintenance					
Maintenance	256,700	11,000	267,700	253,868	13,832
Contract paving and secondary roads	37,000	13,000	50,000	43,294	6,706
Small bridge repair and replacement	30,000	(8,000)	22,000	16,790	5,210
Litter control program	1,664	-	1,664	1,664	-
Support and administrative operations					
General operations	42,500	-	42,500	29,652	12,848
Equipment revolving	15,000	-	15,000	5,035	9,965
Inventory revolving	2,000	-	2,000	(1,443)	3,443
Debt service	41,000	-	41,000	39,621	1,379
PSC Weight Enforcement	4,667	-	4,667	4,667	-
Division of Motor Vehicles operations	37,333	-	37,333	33,092	4,241
Claims - DOH and DMV	144	-	144	144	-
			-		-
	1,052,708	70,000	1,122,708	944,831	177,877
Excess (deficiency) of revenues over expenditures	(6,173)	(14,867)	(21,040)	65,478	86,518
Fund balance, beginning of year	113,598	(14,871)	98,727	100,002	1,275
Fund balance, end of year	$ 107,425	$ (29,738)	$ 77,687	$ 165,480	$ 87,793

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying financial statements of the West Virginia Department of Transportation, (the Department) have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

The financial statements of the Department are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the State of West Virginia that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2007 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. The government-wide statement of net assets reports $13,975 restricted assets, of which all is restricted by enabling legislation.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Employees' vested annual leave is recorded as expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2007, has been reported only in the government-wide financial statements.

- Department employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Department, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, an employee may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's post employment health care insurance premium or to increase service credits for retirement purposes. The liability for accumulated sick leave for employees has been recorded only in the government-wide financial statements.

- The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988, and 50% of the premium for retirees who elected to participate on or after that date. The liability for accumulated post-employment health insurance has been reported only in the government-wide financial statements.

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.

- Claims and judgments are recorded only when payment is due.

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

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

- State Road (Special Revenue) Fund - This fund is used to account for specific revenues that are legally restricted to expenditures for particular purposes. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.

- The Capital Projects Fund – This fund accounts for financial resources to be used for road construction financed by the proceeds from the sale of Surface Transportation Improvements Special Obligation Notes. The notes were issued as a Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code

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

- State Rail Authority (Proprietary) Fund - This fund accounts for the activities of the Railroad, a discretely presented component unit of the Department. The Railroad is responsible for state-wide rail planning and the operation of the SBVRR and WVCRR.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

BUDGETING AND BUDGETARY CONTROL - Except for Parkways, the Department's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 45 days after year-end for goods or services received prior to year-end. Appropriated budgeted expenditures, which lapse 45 days after the end of the fiscal year, are incorporated into the Department's overall financial plan, which includes revenue estimates developed by the Department and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as for special items. Any revisions that alter budgeted expenditures for the expenditure categories for each division as a whole must be approved by the State Legislature.

The Department's State Road Fund (Special Revenue Fund), which includes the A. James Manchin Fund (Special Revenue Fund), has a legislatively approved budget. In addition, with the exception of the debt service fund, all divisions included in the financial statements as other governmental funds, have an annual appropriated budget of expenditures. However, the capital projects fund, debt service fund, and certain monies reported within the State Road Fund for accounting principles generally accepted in the United States of America purposes, are not considered appropriated funds in accordance with the Department's budgetary reporting policy. Accordingly, these funds have not been reported in the Department's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures for the year ended June 30, 2007, on the budgetary basis to the GAAP basis for the State Road Fund follows:

Excess (deficiency) of revenues over expenditures - budgetary basis	$ 65,478
Basis of accounting differences (budgetary to GAAP)	6,454
Unbudgeted funds	2,235
Excess of revenues over expenditures - GAAP basis.	$ 74,167

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

CAPITAL ASSETS - Capital assets, which include buildings, non-infrastructure land, furniture and fixtures, rolling stock, scientific equipment, shop equipment and infrastructure assets (which are normally immovable and of value only to the Department, such as roads, bridges, toll roads, rail properties and similar items), are reported in the statement of net assets in the government-wide financial statements. Capital assets are defined by the Department as follows:

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

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

The estimates of historical costs of buildings and other improvements were based on values that were compiled in 1983. Building and non-infrastructure land have been recorded at cost since 1983. Except for discretely presented component units, infrastructure constructed from July 1, 1980 to July 1, 2001 has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by the Department in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Department has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized.

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

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

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

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

OTHER ASSETS - Other assets represent payments that reflect costs applicable to future accounting periods and are recorded as other assets in both government-wide and fund financial statements.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

POST EMPLOYMENT BENEFITS - The Department pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Department's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for the post retirement benefits. Employees hired subsequent to July 1, 2001 are not eligible for these benefits. Expenditures for post employment health insurance premiums are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated post-employment health insurance as a liability.

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

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

RECENT STATEMENTS ISSUED BY THE GASB - The following statements were adopted by the Department during the fiscal year ended June 30, 2007:

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

- The GASB has issued Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Division has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

- The GASB has issued Statement No. 50. *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007, This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The Division has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

- The GASB has issued Statement No. 51. *Accounting and Financial Reporting for Intangible Assets,* effective for fiscal years beginning after June 15, 2009. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Division has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

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

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

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

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

UNRESTRICTED NET ASSETS - Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". In the governmental environment, net assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Primary Government - Cash and cash equivalents for the primary government consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI) and cash on hand. The composition of cash and cash equivalents were as follows at June 30:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 34,740	$ 34,740
Cash on deposit with State Treasurer invested in BTI cash liquidity pool	166,960	166,960
Cash on deposit with State Treasurer invested in BTI money market pool	31,958	31,958
Cash on deposit with State Treasurer invested in BTI Division of Highways Account	57,005	57,005
Deposits with Financial Institutions	50	50
Cash in transit	1,121	1,121
Cash on hand	3,429	3,429
	$ 295,263	$ 295,263

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

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

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

Credit Risk

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

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

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

Security Type	Credit Rating *		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P1	A-1	$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
Total corporate bonds and notes			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Total investments			2,027,831	97.59
Deposits:				
Nonnegotiable certificates of deposit	NR*	NR*	50,000	2.41
			$ 2,077,831	100.00%

* NR = Not Rated

The Department's ownership represents 8.04% of these amounts held by BTI.

The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46%
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	-
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	51,400	22.39
			$ 229,551	100.00%

The Department's ownership represents 13.92% of these amounts held by BTI.

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

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Money market funds	Aaa	AAA	$ 11	0.02%
Repurchase agreements (underlying securities):				
U.S. agency mortgage backed securities	Aaa	AAA	56,994	99.98
			$ 57,005	100.00%

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

Interest Rate Risk

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

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

Security Type	Carrying Value	WAM (Days)
Repurchase agreements	$ 246,821	2
U.S. Treasury bills	358,725	30
Commercial paper	1,015,926	52
Certificates of deposit	126,500	76
U.S. agency discount notes	21,655	113
Corporate notes	261,025	58
U.S. agency bonds/notes	46,994	156
Money market fund	185	1
	$ 2,077,831	48

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

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 51,400	2
U.S. Treasury bills	36,379	29
U.S. agency discount notes	74,143	106
U.S. agency bonds/notes	67,620	60
Money market funds	9	1
	$ 229,551	49

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 56,994	610
Money market funds	11	1
	$ 57,005	610

Other Investment Risks

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in the leading agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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

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

Restricted Cash and Cash Equivalents for Debt Service Repayment

Credit Risk

The Department limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the note trust indenture that investments in money market funds be rated AAAm or AAAm-G or better by S&P. At June 30, 2007 these funds were invested with Huntington Bank in the Huntington Treasury Money Market IV. The following table provides information on the credit ratings of this investment.

Security Type	Moody's	S&P	Carrying Value	Percentage of Assets
Huntington Treasury Money Market IV	Aaa	AAA	$ 50	100%

Concentration of Credit Risk

The Department's note trust indenture places no limit on the amount the Authority may invest in any one Issuer. All of the investments for debt service repayment are in the Huntington Treasury Money Market IV.

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a failure of the counterparty, the Department will not be able to recover the value of the investment that is in the possession of an outside party. The Division does not have a policy for custodial credit risk. As of June 30, 2007, $50 thousand of the Division's investments were invested in the Huntington Treasury Money Market IV.

Interest rate risk

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

		Investment Maturity in Years			
Security Type	Carrying Value	Less than 1	1-5	6-10	More than 10
Huntington Treasury Money Market IV	$ 50	$ 50	-	-	-

Foreign Currency Risk

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

Discretely Presented Component Units:

State Rail Authority - The State Rail Authority maintains deposits with the STO that are pooled funds managed by the BTI. These funds are subject to the BTI cash liquidity pool policies and procedures above. The State Rail Authority ownership represents .09% of these amounts held by the BTI. The carrying amount of these deposits does not differ materially from the bank balance at June 30.

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

Investments for Debt Service Repayment

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

Credit Risk

The West Virginia State Rail Authority limits the exposure to credit risk in the funds invested for debt service repayment by requiring in the bond trust indenture that investments be rated AA or higher. At June 30, 2007 these funds were invested with the Bank of New York Trust Company, N.A. in the JPMorgan 100% U.S. Treasury Securities Money Market Fund. This Fund invests only in obligations of the U.S. Treasury, including Treasury bills, bonds, and notes. The Fund does not buy securities issued or guaranteed by agencies of the U.S. government. The following table provides information on the credit ratings of this investment.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
U.S. Government securities money market mutual fund	Aaa	AAAm-G	$565,645	100%

Concentration of credit risk

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

Custodial credit risk

Custodial credit risk is the risk that in the event of a failure of the counter party, the State Rail Authority will not be able to recover the value of the investment that is in the possession of an outside party. The State Rail Authority does not have a policy for custodial credit risk. As of June 30, 2007, $565,645 of the State Rail Authority's investment was invested in obligations of the U.S. Treasury.

Interest rate risk

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

		Investment Maturity in Years			
Security Type	Carrying Value	Less than 1	1-5	6-10	More than 10
U.S. Government securities money market mutual fund	$565,645	$565,645	-	-	-

Foreign Currency Risk

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

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

Parkways - Parkways has adopted investment guidelines that are consistent with those specified in the bond trust indentures for its outstanding bonds. Those guidelines authorize Parkways to invest all bond proceeds and other revenues in obligations of the United States and certain of its agencies, certificates of deposit, direct and general obligations of states, repurchase agreements relating to certain securities, and guaranteed investment contracts. Investments are managed by the financial institution servicing as the trustee for Parkways. Parkways has not adopted a formal investment policy beyond the requirements of the bond indentures.

Interest Rate Risk - Investments

As a means of limiting its exposure to fair value losses resulting from rising interest rates, Parkways bond indentures limit at least half of the Parkways investment portfolio to maturities of less than five years. As of June 30, 2007, Parkways had the following investments and maturities:

Investment Type	Fair Value	Less than 1	1-5	6-10	10+
Mutual bond funds	$ 4,556	$ 4,556	$ -	$ -	$ -
U.S. Treasury Obligations	103	103	-	-	-
Government agency bonds	21,880	756	14,626	2,421	4,077
State government bonds	486	-	295	191	-
Municipal government bonds	398	-	-	398	-
Corporate bonds	4,795	300	3,163	723	609
Repurchase agreements	5,516	5,516	-	-	-
	$ 37,734	$ 11,231	$ 18,084	$ 3,733	$ 4,686

Concentration of Credit Risk - Investments

As of June 30, 2007, Parkways had investment balances with the following issuers which were greater than or equal to 5% of the total investment balance:

Type	Issuer	Percentage of Investments
Mutual bond funds	Federated Government Obligations Fund	12%
Government agency bonds	Federal Home Loan Bank	31%
	Federal Home Loan Mortgage Corp.	11%
	Federal National Mortgage Association	6%
	Federal Farm Credit Bank	5%
Repurchase Agreement	United National Bank	15%

Concentration of Credit Risk - Cash Deposits

Parkways' cash deposits with financial institutions were $6,576 at June 30, 2007. These deposits, which had a bank balance of $8,778, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in Parkways' name by its agent.

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

Credit Risk - Investments

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

Security Type	Fitch	Moody's	S&P	Fair Value
Mutual bond funds	AAA	Aaa	AAAm	$ 4,556
Government agency bonds	AAA	Aaa	AAA	21,880
State government bonds	AAA	Aaa	AAA	486
Municipal government bonds	AAA	Aaa	AAA	398
Corporate bonds	AAA	Aaa	AAA	4,795
				$ 32,115

Unrated securities include a repurchase agreement of $5,516. Acceptable collateral for the repurchase agreements include United States Treasury and government agency securities equal to 105% of the carrying value, all of which carry the highest credit rating.

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

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Parkways will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2007, Parkways held no securities that were subject to custodial credit risk.

Foreign Currency Credit Risk - All Investments

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

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

As disclosed in this Note:	
Total deposits	$ 6,576
Total other investments	37,734
	$ 44,310
As reported on the Statement of Net Assets:	
Cash and cash equivalents	$ 17,648
Short-term investments	5,266
Investments in securities maturing beyond one year	21,396
	$ 44,310

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

The cost of investment securities and related accrued interest receivable is allocated at June 30, 2007, among the following restricted accounts created under the various Trust Indentures or by the adoption of Authority resolution:

	2007
Restricted and designated assets:	
Assets restricted by Trust Indenture:	
Series 1989, 1993, 2002, and 2003 Reserves	$ 10,922
Series 1989 and 1993 Debt Service	330
Renewal and Replacement	4,352
Operating and Maintenance	3,985
Series 2001 Debt Service	112
Series 2002 Debt Service	561
Series 2003 Debt Service	380
Insurance Liability	1,000
Economic Development and Tourism	4,416
	26,058
Reserve Revenue, restricted by Tri-Party Agreement	15,210
Facility Improvement	865
Highway/Bridge Contingency, restricted by Tri-Party Agreement	1,000
Unredeemed coupons	228
Total restricted and designated assets	$ 43,361

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

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

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

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

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

Parkways established the Facility improvement account in March 2004 by dedicating funds from the superload fees that are collected by the Division of Highways on the Authority's behalf. This fund will be used at the Board's discretion for either facility repairs and improvements or as a sinking fund for future facilities rehabilitation.

The Reserve Revenue Account, restricted by the Tri-Party Agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and Parkways, can only be used for maintenance and operation of the Turnpike and for debt service.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 consisted of the following:

	Primary Government	Component Units
Federal aid billed and not paid	$ 17,578	$ -
Federal aid earned but not billed	57,775	-
Total federal aid receivable	75,353	
Other receivables	13,018	1,616
Combined total receivables	88,371	1,616
Less: allowance for uncollectibles	(405)	-
Net accounts receivable	$ 87,966	$ 1,616

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

NOTE 4 - TAXES RECEIVABLE

Taxes receivable at June 30, 2007 consisted of the following:

Automobile privilege taxes	$ 35,101
Motor fuel excise taxes	45,448
Registration fees	3,401
Less: Long-term portion	(5,174)
Current taxes receivable	$ 78,766

Taxes receivable include privilege taxes that are being collected on vehicles with ongoing leases. Of the total privilege tax accrued at year end $5,174 is not expected to be collected within one year and is classified as a long term receivable.

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

Amounts due from other State of West Virginia agencies at June 30, 2007 consisted of the following:

	Primary Government	Component Units
Other Agencies	$ 157	$ 709
	$ 157	$ 709

Amounts due to other State of West Virginia agencies at June 30, 2007 consisted of the following:

	Primary Government	Component Units
Public Employees Insurance Agency	$ 1,193	$ -
Public Employees Retirement	982	-
The Department of Administration	243	-
Other Agencies	493	38
	$ 2,911	$ 38

NOTE 6 - INVENTORIES

Inventories at June 30, 2007 consisted of the following:

	Primary Government	Component Units
Materials and supplies	$ 22,584	$ 2,411
Equipment repair parts	9,190	-
Gas and lubrication supplies	2,865	-
	$ 34,639	$ 2,411

NOTE 7 - CAPITAL ASSETS

Governmental Activities:

Capital asset activity for Governmental Activities for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land - non infrastructure	$ 15,701	$ -	$ -	$ 15,701
Land - infrastructure	806,875	37,878	79	844,674
Building - construction in progress	1,270	2,066	1,295	2,041
Land Improvements-construction in progress	437	648	487	598
Construction-in-progress - roads	799,284	261,418	249,959	810,743
Construction-in-progress - bridges	389,022	170,098	93,584	465,536
Total capital assets not being depreciated	2,012,589	472,108	345,404	2,139,293
Capital assets being depreciated:				
Buildings	98,561	1,288	218	99,631
Furniture and fixtures	8,703	175	177	8,701
Land improvements - non infrastructure	6,480	245		6,725
Rolling stock	199,537	16,274	15,423	200,388
Shop equipment	3,040			3,040
Scientific equipment	2,308	81	7	2,382
Infrastructure - roads	6,624,223	249,959		6,874,182
Infrastructure – bridges	1,518,716	93,584	-	1,612,300
Total capital assets being depreciated	8,461,568	361,606	15,825	8,807,349
Less accumulated depreciation:				
Buildings	31,924	2,730	218	34,436
Furniture and fixtures	8,192	197	161	8,228
Land improvements - non infrastructure	1,997	324		2,321
Rolling stock	138,634	17,303	14,409	141,528
Shop equipment	2,954	16		2,970
Scientific equipment	1,672	97	7	1,762
Infrastructure – roads	3,041,128	224,917		3,266,045
Infrastructure - bridges	293,861	32,375	-	326,236
Total accumulated depreciation	3,520,362	277,959	14,795	3,783,526
Total capital assets being depreciated, net	4,941,206	83,647	1,030	5,023,823
Governmental activities capital assets, net	$ 6,953,795	$ 555,755	$ 346,434	$ 7,163,116

Current year depreciation totaling $274,708 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining $3,251 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Department.

NOTE 7 - CAPITAL ASSETS (Continued)

A summary of depreciation on each capital asset type follows:

Asset Type	Depreciation
Buildings	$ 2,730
Furniture and fixtures	197
Land improvements	324
Total unallocated	3,251
Rolling stock	17,303
Shop equipment	16
Scientific equipment	97
Total road maintenance	17,416
Infrastructure - roads	224,917
Infrastructure - bridges	32,375
Total other road operations	257,292
Total depreciation expense	$ 277,959

Discretely Presented Component Units:

Capital asset activity for discretely presented component units for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land - infrastructure	$ 53,247	$ -	$ 2,754	$ 50,493
Land - non infrastructure	4,836	2,754	-	7,590
Total capital assets not being depreciated	58,083	2,754	2,754	58,083
Capital assets being depreciated:				
Buildings	95,849	833	-	96,682
Furniture and fixtures	451	-	-	451
Rolling stock	9,075	516	-	9,591
Infrastructure - toll road	780,786	15,462	-	796,248
Infrastructure - rail property	40,923	2,262	163	43,022
Total capital assets being depreciated	927,084	19,073	163	945,994
Less accumulated depreciation:				
Buildings	42,035	3,261	-	45,296
Furniture and fixtures	302	11	-	313
Rolling stock	4,273	749	-	5,022
Infrastructure -toll road	361,003	26,211	-	387,214
Infrastructure - rail property	11,444	1,229	67	12,606
Total accumulated depreciation	419,057	31,461	67	450,451
Total capital assets being depreciated, net	508,027	(12,388)	96	495,543
Governmental activities capital assets, net	$ 566,110	$ (9,634)	$ 2,850	$ 553,626

Current year depreciation totaled $31,461.

NOTE 8 - RETAINAGES PAYABLE

The Department has entered into an arrangement with the West Virginia Board of Treasury Investments whereby amounts retained from payments to contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. Retainage payments are made to the contractor when contracts are satisfactorily completed. The funds on deposit in these accounts are not reported as assets of the Department. At June 30, 2007, retainages payable on contracts had been reduced to these amounts on deposit in such accounts by approximately $572.

NOTE 9 - LONG-TERM OBLIGATIONS

Governmental Activities:

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows:

	Issue Date	Interest Rates	Maturity Through	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds payable from tax revenue:							
Safe road bonds	1998	4.30%-5.25%	06/01/2023	$ 56,755	$ -	$ 5,245	$ 51,510
Safe road bonds	1999	4.30%-5.75%	06/01/2017	6,560	-	2,090	4,470
Safe road bonds	2001	3.50%-5.50%	06/01/2013	67,120	-	9,630	57,490
Safe road bonds	2006	3.00%-5.00%	06/01/2025	317,560	-	1,185	316,375
Total general obligation bonds				447,995		18,150	429,845
Bond premium				30,014	-	2,000	28,014
Total general obligation bonds payable net of premium				478,009	-	20,150	457,859
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75%-5.00%	06/01/2016	-	75,970	-	75,970
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00%-5.00%	06/01/2016	-	33,190		33,190
Total revenue notes payable					109,160		109,160
Bond Premium					3,683	244	3,439
Total revenue notes payable net of premium					112,843	244	112,599
Claims and judgments				9,194	630	3,774	6,050
Compensated absences				81,250	1,023	6,698	75,575
Total long-term obligations				$ 568,453	$114,496	$ 30,866	$ 652,083

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

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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

Debt service expenditures for debt service funds included interest of $23,437 for the year ended June 30, 2007. 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:

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	Total
General obligation bonds payable from tax revenue:									
Safe road bonds	$49,993	$49,996	$49,995	$49,993	$49,995	$173,069	$117,578	$70,545	$ 611,164
Total general obligation bonds	49,993	49,996	49,995	49,993	49,995	173,069	117,578	70,545	611,164
Less: interest	21,338	19,911	18,405	16,828	15,130	54,214	29,023	6,470	181,319
Total principal	28,655	30,085	31,590	33,165	34,865	118,855	88,555	64,075	429,845
Bond Premium	1,941	1,886	1,633	1,586	1,546	7,470	7,470	4,482	28,014
Total principal and bond premium	$ 30,596	$ 31,971	$ 33,223	$ 34,751	$ 36,411	$ 126,325	$ 96,025	$ 68,557	$ 457,859
Revenue notes payable from federal aid revenue:									
Surface transportation special obligation notes	$ 14,744	$ 14,749	$ 14,745	$ 14,749	$ 14,750	$ 58,981			$ 132,718
Total surface transportation special obligation bonds	14,744	14,749	14,745	14,749	14,750	58,981			132,718
Less: interest	4,459	4,199	3,740	3,244	2,750	5,166			23,558
Total principal	10,285	10,550	11,005	11,505	12,000	53,815			109,160
Bond premium	383	382	382	382	382	1,528			3,439
Total principal and note premium	$ 10,668	$ 10,932	$ 11,387	$ 11,887	$ 12,382	$ 55,343			$ 112,599

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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

	Compensated Absences	Claims and Judgments	General Obligation Bonds, Revenue Notes and Premium	Total
Short-term liability	$ 19,171	$ 630	$ 41,264	$ 61,065
Long-term liability	56,404	5,420	529,194	591,018
	$ 75,575	$ 6,050	$ 570,458	$ 652,083

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

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

During the year ended June 30, 2007, The State was authorized by constitutional amendment to issue $200,000 of Surface Transportation Improvements Special Obligation Notes (Garvee Notes) to fund highway and road construction projects. These notes will be repaid from future federal highway revenues. Garvee Notes of $76,000 were issued during October 2006 and $33,000 were issued during April 2007. It is anticipated that approximately $91,000 of additional Garvee notes will be issued during the fiscal year ending June 30, 2008.

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

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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

	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2005
Estimated claims liability, July 1	$ 9,194	$ 6,197	$ 8,700
Additions for claims incurred during the year	630	3,094	1,200
Changes in estimates for claims of prior periods	(3,630)	300	(3,287)
Payments on claims	(144)	(397)	(416)
Estimated claims liability, June 30	$ 6,050	$ 9,194	$ 6,197

At June 30, 2007, approximately $14,032 of tort claims and $18,774 of construction claims, including non-incremental claims, were pending against the Department in the West Virginia State Court of Claims. With respect to these claims, the Department has an estimated obligation of $6,050, 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 $630. During the normal course of operations, the Department may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Department's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Also included in this amount is the Department's unfunded obligation of approximately $8,558 arising in connection with legislation to fund portions of employee post retirement health insurance costs for retired employees. These liabilities are generally liquidated by the State Road Fund.

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or to obtain a greater benefit under the West Virginia Public Employees Retirement System. These liabilities are generally liquidated by the State Road Fund. Expenditures during the year ended June 30, 2007 for health care premiums for 509 retirees were approximately $2,038.

Discretely Presented Component Units:

State Rail Authority - Long-term debt of the State Rail Authority consisted of notes payable to the County Commissions of Hardy County and Hampshire County, West Virginia amounting to $425 as of June 30, 2007. These notes are payable in monthly installments of approximately $38, including interest ranging from 6.7% to 7.4%, with the final payment due July 2007.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows:

Notes payable at June 30, 2006	$ 837
Less principal retirements	(395)
Less amortization of premium	(17)
Notes payable at June 30, 2007	425
Less current portion	425
Long-term notes payable	$ -

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

Year ending June 30	Principal	Interest	Total
2008	$425	$31	$456

The following is a summary of the compensated absences for the year ended June 30, 2007:

Year ending June 30	Short term Compensated Absences	Long term Compensated Absences
2007	$ 59,181	$ 132,913

Parkways - Long-term debt obligations of Parkways consisted of the following at June 30, 2007:

Revenue bonds payable	$ 87,194
Capital leases	921
	$ 88,115

Capital Leases - Parkways entered into - capital leases during the fiscal year 2007 - the equipment has a carrying value of $1,363 at June 30, 2007. Future minimum lease payments are as follows for the years ending June 30:

2008	$ 571
2008	514
2010	310
2011	136
	1,531
Less amount representing interest	(88)
Less current portion	(522)
	$ 921

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Revenue Bonds - Revenue bonds payable consisted of the following at June 30, 2007:

Series 2001A Taxable Serial Bonds, issued $5,695 in December 2001 at 4.75% to 7.00%, due in varying installments from June 2002 through June 2011	$ 2,755
Series 2001B Bonds, issued serial bonds of $1,505 in December 2001, at 3.50% to 5.00%, due in varying installments from June 2002 through 2011	740
Series 2001B term bonds, $2,090 at 5.00%, due June 2013	2,090
Series 2001B term bonds, $2,305 at 5.125%, due June 2015	2,305
Series 2002 Serial Bonds, issued $44,205 in February 2002 at 3.50% to 5.25%, due in varying installments from May 2002 through May 2019	32,870
Series 2003 Variable Rate Demand Revenue Refunding Bonds, $63,900 at variable rates, due in varying installments through May 2019	63,000
Total revenue bonds payable	103,760
Add:	
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	1,743
Less:	
Unamortized deferred loss on advance refunding	(10,231)
Unamortized discount and issuance costs	(1,398)
Current portion of revenue bonds payable	(6,680)
	$ 87,194

In 1993, Parkways issued $118,781 of Revenue Refunding Bonds for the express purpose of defeasing $111,245 of 1989 Series Bonds, all of which are no longer outstanding. The advance refunding resulted in a $14,350 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $31 in 2007. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost $7,400 over a 26-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of $5,200.

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

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

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

In 2002, $5,695 of Raleigh County, West Virginia, Taxable Commercial Development Revenue Refunding Bonds, Series 2001A and $5,900 of Commercial Development Revenue Bonds, Series 2001B (the Series 2001 Bonds) were issued pursuant to a bond resolution adopted by the County Commission of Raleigh County, West Virginia (the issuer), and a Trust Indenture, dated December 1, 2001 (the Indenture). The bond proceeds of the Series 2001A were used to advance refund $1,735 of the Series 1994 Bonds and $4,075 of the Series 1996 Bonds, of which $3,710 remains outstanding but is considered defeased and accordingly has been removed from Parkways' financial statements. The advance refunding resulted in a $491 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2011, approximated $61 in 2007. The Series 2001B Bonds were issued to construct and furnish an expansion of the Caperton Center. The Series 2001 Bonds are limited obligations of the Issuer payable solely from loan payments by Parkways pledged under the Indenture, and are also secured equally and ratably by a Trust Agreement among Parkways, the Issuer and a trustee, wherein Parkways has pledged certain non-toll revenues of Parkways including (i) net revenues of the Caperton Center; (ii) certain interest and other investment earnings; and (iii) gross revenues derived from concessionaire or other contracts with third parties relating to operations conducted by such third parties at any of Parkways' service plazas. Toll revenues derived by Parkways in connection with the operation of the Turnpike are not pledged or otherwise available to pay debt service on the Series 2001 Bonds. Parkways completed the advance refunding to remove certain restrictive indenture requirements of the Series 1994 and Series 1996 bonds. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of $583.

Additionally in 2002, $44,205 of Revenue Refunding Bonds were issued for the express purpose of defeasing $36,036 of Series 1993 Bonds. The advance refunding resulted in a $6,313 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $269 in 2007. Parkways completed the advance refunding to reduce its aggregate debt service payments by almost $3,003 over an 18-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,624.

In 2003, Parkways issued $63,900 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding $61,280 of Parkways' Series 1993 Bonds. This refunding resulted in a $7,896 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $566 in 2007. Parkways completed the refunding to reduce its aggregate debt service payment by $7,270 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of $4,851.

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

Objective of the Interest Rate Swap

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Terms of the Interest Rate Swap

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

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

Fair Value

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of $2,537 as of June 30, 2007. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because Parkways' bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk

As of June 30, 2007, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standards & Poor's and Aa by Moody's Investor's Service as of June 30, 2007.

Basis Risk

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2007. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2007, the BMA rate was 3.730 percent, whereas 67 percent of the LIBOR was 3.62 percent.

Termination Risk

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

Swap Payments and Associated Debt

Using rates as of June 30, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net	Total
2008	$ 3,900	$ 1,993	$ 911	$ 6,804
2009	4,300	2,243	485	7,028
2010	4,300	2,079	451	6,830
2011	4,700	1,916	413	7,029
2012	4,700	1,738	404	6,842
2013-2017	28,000	5,768	1,221	34,989
2018-2020	13,100	751	129	13,980
	$ 63,000	$ 16,488	$ 4,014	$ 83,502

The following schedule summarizes the revenue bonds outstanding as of June 30, 2007:

2007	Beginning Balance	Additions	Retired	Amortization	Ending Balance	Due Within One Year
Series 1993	$ 3,644	$ -	$ (3,803)	$ 159	$ -	$ -
Series 2001	8,359	-	(750)	61	7,670	795
Series 2002	31,491	-	(2,015)	269	29,745	1,985
Series 2003	56,193	-	(300)	566	56,459	3,900
	$ 99,687	$ -	$ (6,868)	$ 1,055	$ 93,874	$ 6,680

Debt service requirements for the Revenue Bonds subsequent to June 30, 2007, are as follows:

Year Ending June 30	Principal Maturities	Interest, Including Accretion	Total
2008	$ 6,680	$ 5,059	$ 11,739
2009	7,330	4,736	12,066
2010	7,405	4,375	11,780
2011	8,090	4,006	12,096
2012	7,120	3,628	10,748
2013-2017	47,045	11,556	58,601
2018-2021	20,090	1,435	21,525
	$ 103,760	$ 34,795	$ 138,555
Add:			
Unamortized premium and accumulated appreciation on Premium Capital Appreciation Bonds	1,743		
Less:			
Unamortized deferred loss on advance refunding	(10,231)		
Unamortized discount and issuance costs	(1,398)		
Current portion of revenue bonds payable	(6,680)		
	$ 87,194		

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

Discretely Presented Component Units (Continued):

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for the Bonds to maintain their tax-exempt status. At June 30, 2007, Parkways' estimated arbitrage rebate liability was zero.

Compensated Absences - Following is a summary of the liability for compensated absences for the year ended June 30, 2007:

	Balance June 30, 2006	Payments	Increases	Balance June 30, 2007	Due Within One Year
Termination payments related to sick leave	$ 2,959	$ (402)	$ -	$ 2,557	$ 256

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

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

- The Department leases from the Department of Administration substantially all of State Office Building No. 5 and a portion of State Office Building No. 3 which are owned by the State Building Commission. The Department may be released from its obligation only at the option of the lessor. The Department is obligated under these operating leases, which expire December 31, 2007, for rental payments of approximately $2.0 million annually. Management expects the leases to be renewed upon expiration.

- The Department's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2007, the Department incurred payroll related expenditures of approximately $34,014 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $18,254 in employer matching contributions to the State Public Retirement System.

- The Department was insured under the West Virginia Workers' Compensation Division until January 1, 2006. In January 2006 the state privatized Workers' Compensation. Workers' Compensation coverage is currently provided solely from BrickStreet Insurance Company, a private mutual insurance company established in conjunction with the privatization process. During the year ended June 30, 2007 the Division paid approximately $10,133 to BrickStreet Insurance Company for coverage through June 30, 2007.

- The Department made payments to the Department of Military Affairs and Public Safety, Division of Public Safety for various services performed. These expenditures, which were authorized by the Legislature, amounted to approximately $5,481 during the year ended June 30, 2007.

- The Department made payments to the Public Service Commission for weight enforcement duties. These expenditures, which were authorized by the Legislature, amounted to approximately $4,667 during the year ended June 30, 2007.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Department with various contractors approximated $655,316 at June 30, 2007. In addition, Parkways had contractual commitments totaling $11,151 for various Turnpike System improvement projects.

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

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

NOTE 12 - RETIREMENT PLAN

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

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 15% of annual covered payroll, including the Department's contribution of 10.5%, which is established by PERS. The Department's contributions to PERS for the primary government and the component units for the years ended June 30, 2007, 2006 and 2005 were $18,254, $18,130 and $19,025 respectively, equal to the required contributions for each year.

Discretely Presented Component Units:

State Rail Authority's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 were $66, $66 and $65.

Parkway's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 were $1,474, $1,453 and $1,649.

NOTE 13 - RISK MANAGEMENT

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

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

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

NOTE 14 - SUBSEQUENT EVENTS

The Division of Highways is expected to issue revenue notes in the amount of $91 million in February 2008. These notes will be revenue notes and the debt service payments will be funded through federal aid revenue and are the third issue of the Surface Transportation Improvements Special Obligation Notes.

On August 21, 2007, Parkways sold its economic development project investment in the Parkways Enterprise Limited Liability Partnership (PELP) to a not-for-profit organization for $2,300. As of June 30, 2007, the Authority's investment in PELP had a carrying value of $2,000, thus resulting in a $300 gain on the sale.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007
(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	$ 18,997	$ 753	$ 2,756	$ 1,045	$ 23,551
Receivables	835	57	178	2	1,072
Inventories	1,380	-	-	-	1,380
Other assets	51	-	-	-	51
Total assets	$ 21,263	$ 810	$ 2,934	$ 1,047	$ 26,054
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 933	$ -	$ 20	$ 2	$ 955
Accrued payroll and related liabilities	86	27	5	10	128
Due to other funds/agencies	3,115	-	-	-	3,115
Due to other states	4,098	-	-	-	4,098
Deferred revenue	-	-	-	-	-
Total liabilities	8,232	27	25	12	8,296
Fund balances					
Reserved for inventories	1,380	-	-	-	1,380
Unreserved, undesignated	11,651	783	2,909	1,035	16,378
Total fund balances	13,031	783	2,909	1,035	17,758
Total liabilities and fund balances	$ 21,263	$ 810	$ 2,934	$ 1,047	$ 26,054

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007
(amounts expressed in thousands)

	Motor Vehicle Fees	Public Transit	Aeronautics Commission	Port Authority	Total Nonmajor Governmental Funds
Revenues					
Taxes					
Aviation fuel	$ -	$ -	$ 817	$ -	$ 817
License, fees and permits					
Motor vehicle registrations and licenses	5,582	-	-	-	5,582
Federal aid	8,161	9,975	-	-	18,136
Payments from primary government	-	2,030	1,180	331	3,541
Miscellaneous revenues	-	511	131	1,045	1,687
	13,743	12,516	2,128	1,376	29,763
Expenditures					
Current					
Support and administrative operations	11,991	12,646	1,530	336	26,503
	11,991	12,646	1,530	336	26,503
Excess (deficiency) of revenues over expenditures	1,752	(130)	598	1,040	3,260
Fund balances, beginning of year	11,279	913	2,311	(5)	14,498
Fund balances, end of year	$ 13,031	$ 783	$ 2,909	$ 1,035	$ 17,758

COMPLIANCE AND INTERNAL CONTROL REPORTS

#8 Stonecrest Drive
Huntington, WV 25701

HAYFLICH & STEINBERG

Certified Public Accountants

Phone: (304) 697-5700
Fax: (304) 697-5704
www.hayflich.net

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the West Virginia Department of Transportation (the Department) as of and for the year ended June 30, 2007, which collectively comprise the West Virginia Department of Transportation's basic financial statements and have issued our report thereon dated December 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Parkways, Economic Development and Tourism Authority, a discretely presented component unit, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2007-7 through 2007-12 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as items 2007-7 through 2007-12.

We noted certain matters that we reported to management of the Department in a separate letter dated November 16, 2007.

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

Hayflick & Stirling, CPA's, PLLC

December 6, 2007

#8 Stonecrest Drive
Huntington, WV 25701

HAYFLICH & STEINBERG

Certified Public Accountants

Phone: (304) 697-5700
Fax: (304) 697-5704
www.hayflich.net

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

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

Compliance

We have audited the compliance of the West Virginia Department of Transportation (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-7 through 2007-12.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-7 through 2007-12 to be significant deficiencies.

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

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

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

Hayflich & Stanley, CPA's, PLLC

December 6, 2007

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Division	CFDA Number	Expenditures
U.S. Department of Agriculture			
Cooperative Forestry Assistance	DOH	10.664	$ 59,990
Schools and Roads - Grants to States	DOH	10.665	301,026
Total U.S. Department of Agriculture			361,016
U.S. Department of Justice			
Passed-through State of West Virginia Department of Motor Vehicles			
Public Safety Partnership and Community Policing Grants	DMV	16.710	475,000
Total U.S. Department of Justice			475,000
U.S. Department of Transportation/U.S. Appalachian Regional Commission			
Highway Planning and Construction Cluster			
Highway Planning and Construction	DOH	20.205	297,494,786
Appalachian Development Highway System	DOH	23.003	88,923,998
Performance and Registration Information Systems Management	DMV	20.231	280,215
Recreational Trails Funding Program	DOH	20.219	1,089,270
Federal Transit Capital Improvement Grant	PT	20.500	4,718,832
Federal Transit Technical Studies Grant	PT	20.505	241,726
Public Transportation for Nonurbanized Areas	PT	20.509	4,279,165
Capital Assistance Program for Elderly Persons and Persons with Disabilities	PT	20.513	750,158
Highway Safety Cluster			
State and Community Highway Safety	DMV	20.600	2,435,224
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	DMV	20.601	376,537
Safety Incentive Grants for Use of Seatbelts	DMV	20.604	514,201
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	DMV	20.605	10,332
Incentive Grant Program to Prohibit Racial Profiling	DMV	20.611	23,514
Child Safety and Child Booster Seat Incentive Grants	DMV	20.613	40,473
Alcohol Open Container Requirements	DMV	20.607	2,718,707
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	DMV	20.608	2,698,819
Total U.S. Department of Transportation/U.S Appalachian Regional Commission			406,595,957
U.S. Department of Homeland Security			
Passed-through State of West Virginia Department of Military Affairs and Public Safety			
Public Assistance Grants	DOH	97.036	4,453,753
Total U.S. Department of Homeland Security			4,453,753
Total Federal Expenditures			$ 411,885,726

DMV Division of Motor Vehicles
DOH Division of Highways
PT Public Transit

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the West Virginia Department of Transportation, and is presented on the accrual basis of accounting. The Schedule does not include federal awards received and expended by the discretely presented component units of the Department as described in Note 1 to the Department's financial statements for the year ended June 30, 2006. These organizations are responsible when necessary, for obtaining separate audits of their federal award programs. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

NOTE 2 - SUBRECIPIENTS

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

Program Title	Federal CFDA No.	Amount Provided to (Refunded from) Subrecipients
Highway Planning and Construction	20.205	$ 7,880,541
Federal Transit Capital Improvement Grant	20.500	1,291,730
Federal Transit Technical Studies Grant	20.505	230,496
Public Transportation for Nonurbanized Areas	20.509	3,243,321
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,100
State & Community Highway Safety	20.600	1,119,551
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	164,786
Safety Incentive Grants for Use of Seatbelts	20.604	204,898
		$ 14,140,423

NOTE 3 - MAJOR FEDERAL AWARD PROGRAM

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006-6 CFDA# 20.205, 23.003, 97.036, 20.600, 20.601, 20.603, 20.604, 20.500, & 20.509 Highway Planning and Construction Cluster, Public Assistance Grants, Highway Safety Cluster, Federal Transit Capital Grants, and Public Transportation for Nonurbanized Areas.	Information Systems Controls - The Department operates a wide variety of computer applications, many of which affect federal and state programs' data. During our review of the information systems controls we noted the following: • Through the West Virginia Information System & Communication Department of the State of West Virginia (IS&C), the Department did have a vulnerability test conducted on all access points from the IS&C systems to the firewall at the Department's system access point. However, the vulnerability test performed did not include a test of the internal network or the wireless networks utilized by the Department. By completing this review, the Department will have assurance that network devices and server platforms are protected from current and emerging threats and vulnerabilities. Furthermore, the Department has not had a code review on all online/e-commerce applications utilized by the Department. Also, there are no policies and procedures in place for conducting periodic vulnerability testing and intrusion testing of the various computer systems maintained by the Department. (Partially noted in prior year). • Programmers in the Department's Information Services Department have access to production programs in the REMIS system and the Project Record System (PRS). This access grants the Division's Information Services Department personnel the same rights as a business user of the application, which allows them access to data and transaction authority. (Also, partially noted in the prior year). • The Department's Information Services Department is not notified immediately upon the termination of employees. Lack of notification to the Information Services Department in a timely basis increases the risk of unauthorized access to the information systems and data. Furthermore, the Department maintains several user accounts which are not for specific employees of the Department.	N/A

Program	Findings/Noncompliance	Questioned Costs
2006-6 (Continued)	• The Division of Motor Vehicles (DMV) Cash Register System stores user account passwords in clear unencrypted text. Storing passwords in clear, unencrypted text increases the risk that a user account's password could be compromised by another user. (Also, noted in the prior year) Current year status – Partially resolved Management response *The internal network is undergoing a multitude of changes including migration from the legacy DOT Microsoft Domain to the consolidated Executive Domain, network backbone infrastructure upgrades and upgrades to the Wide Area Network. The migration to the Executive Domain is expected to be completed by the second quarter 2008. Once the new infrastructure is in place, a vulnerability assessment will be conducted. DOT and Office of Technology (OT) will work together to determine if the assessment can be accommodated through OT or whether a third party will be engaged.*	

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 7 CFDA# 20.205 & 23.003 Highway Planning and Construction Cluster	Procurement of Architectural and Engineering Services- the following was noted during the review of documentation related to the procurement of architectural and engineering services: For several of the projects reviewed, the reasons for why a vendor was selected and the interviews of consultants were not documented. (Noted in prior year) Specifically, we noted this problem in the following files: S304-40-0.80, S317-98-4.06, T640-64-43.80, T628-BLU/EF-6, T635-470-0.04, S320-77-103.43, S318-77-144, and S335-70-0.02. Current year status – Resolved	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 8 CFDA# 20.205 & 23.003 Highway Planning and Construction Cluster	Evaluation of Consultants' Work - the following was noted during our review of the Department's evaluation of consultants' work: There were 3 identified instances of 28 where no interim evaluations were located in file, but a final evaluation was located. The project numbers are S322-32-9.04, S352-250-8.66 00, and S344-9-3.71 00. There were also 21 identified instances of 28 where no evaluations were located in the file. The project numbers are T620-P25-0.07, X354-D-0.00 02, U212-220-12.65, X341-125-0.01, S320-61-27.69 00, T615-30-0.17 00, X216-10/10-0.00, U234-19-11.72 02, X354-D-4.73 02, S330-65/5-1.47 00, S306-64-6.28 00, X354-D/2.18 04, S620-64/77-3, U316-220-8.50 00, S323-10-8.99 00, S339-72-1.85 00, X354-D-0.00 02, T631-79-149.39, U319-17-0.43, S320-61-13.10, and S314-127-1.40. Current year status – Resolved	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 9 CFDA# 20.205 & 23.003 Highway Planning and Construction Cluster	Authorization of Overtime Pay – The following was identified during overtime paid testing for the fiscal year ended June 30, 2006: • The Department does not have adequate policies and procedures for the administration of overtime. • The Department has not updated the existing policies and procedures and related payroll classifications regarding the new U.S. Department of Labor Standards. The Department may not be in full compliance with the provisions set forth by the Department of Labor (DOL) concerning the overtime increment pay. Current year status – Resolved	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 10 CFDA# 20.205 & 23.003 Highway Planning and Construction Cluster	Land and Leases – Several issues were noted relating to land and leases, including the following: • There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further although the Department has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances. • Leased property was sometimes occupied by the lessee prior to payment or to the execution of the lease agreement. • Lease documents were not filed properly. There is no system to readily track leases or other property maintained by the Department. Current year status – Partially resolved. See current year finding 2007 – 6.	N/A

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 11 CFDA# 20.205 & 23.003 Highway Planning and Construction Cluster	Non-Compliance with Authorized Funding Techniques- From discussions with Department staff, it was determined that the Department has not properly implemented the composite clearance funding technique for payroll costs for programs 20.205, *Highway Planning and Construction*, and 23.003, *Appalachian Development Highway System*. According to Department staff, personnel costs that are chargeable to the Federal programs are entered into Department's billing system as the time is worked. The Department's system then accumulates these costs, along with other direct costs, to determine the amount of Federal funds to be drawn. The funds are drawn such that they are deposited ten days from the request date. Since all personnel at Department are paid in arrears, this results in the Federal funds being deposited in the State's accounts up to twenty-four days in advance of the payroll disbursements clearing the State's accounts. Current year status – Partially resolved. See current year finding 2007 – 11.	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SUMMARY SCHEDULE OF PRIOR YEAR SINGLE AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

Program	Findings/Noncompliance	Questioned Costs
2006 – 12 CFDA# 20.600, 20.601, 20.603 & 20.604 Highway Safety Cluster	Subrecipient Monitoring - Policies and Procedures - the Division has developed some monitoring procedures for the monitoring of subrecipients, including obtaining and reviewing subrecipient audit reports; however, the procedures do not address the following aspects of the monitoring plan: • There are no policies or procedures in place to determine the frequency and which subrecipients are to be monitored. During the current year DMV did not maintain a monitoring log and performed very little on-site monitoring. Additionally, current procedures do not address areas such as frequency of monitoring reviews, follow-up on findings, and communication protocols with various departments. • There are no policies and procedures in place to address how issues identified during the monitoring are to be resolved. Current year status – Partially resolved. See current year finding 2007 – 12.	Unknown

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified Opinion			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiencies identified that are not considered to be material weaknesses?	X	yes		none reported
Noncompliance material to financial statements noted?	X	yes		no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiencies identified that are not considered to be material weaknesses?	X	yes		none reported
Type of auditors' report issued on compliance for major programs:	Unqualified Opinion			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	X	yes		no

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
U.S. Department of Transportation, U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Appalachian Development Highway System	23.003
Federal Transit Capital Improvement Grant	20.500
Public Transportation for Nonurbanized Areas	20.509
Highway Safety Cluster	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Safety Incentive Grants for Use of Seatbelts	20.604
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605
Incentive Grant Program to Prohibit Racial Profiling	20.611
Child Safety and Child Booster Seat Incentive Grants	20.613
U.S. Department for Homeland Security	
Public Assistance Grants	97.036

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

Section II Financial Statement Findings Section

2007 – 1	Information Systems Controls See related finding at 2007 – 7
2007 – 2	Land and Leases See related finding at 2007 – 8
2007 – 3	Notice to proceed – utility delays See related finding at 2007 – 9
2007 – 4	Payroll authorization procedures See related finding at 2007 – 10
2007 – 5	Non-Compliance with authorized funding techniques See related finding at 2007 – 11
2007 – 6	Subrecipient Monitoring – Policies and Procedures See related finding at 2007 – 12

SECTION III

FEDERAL AWARD FINDINGS

AND QUESTIONED COSTS SECTION

2007 – 7 Information Systems Controls

Federal Program Information:	CFDA Number
U.S. Department of Transportation, U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	20.205
Appalachian Development Highway System	23.003
Federal Transit Capital Improvement Grant	20.500
Public Transportation for Non-urbanized Areas	20.509
Highway Safety Cluster	
State and Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Safety Incentive Grants for Use of Seatbelts	20.604
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605
Incentive Grant Program to Prohibit Racial Profiling	20.611
Child Safety and Child Booster Seat Incentive Grants	20.613
U.S. Department for Homeland Security	
Public Assistance Grants	97.036

Criteria: The management of the Department is responsible for establishing and maintaining adequate information systems internal controls over financial reporting. Furthermore, an integral part of an entity's internal control structure is the effective segregation of duties, which involves assigning responsibilities for authorizing transactions, recording transactions and maintaining custody of assets to different individuals, thus reducing the risk of errors or fraud occurring and not being detected. Additionally, the Department entered into an agreement with the West Virginia Office of Technology (OT) dated February 1, 2007, pursuant to West Virginia Code Article 6 Chapter 5A, OT is to provide the Department with an standardized technology infrastructure from a centrally-managed technology infrastructure support organization. The expected benefit is a decline in technology cost, network and system availability is expected to improve, and security risks to diminish. Although the Department and West Virginia Code outsourced the technology infrastructure of the Department to OT the Department retains the final responsibility for establishing and maintaining adequate information systems internal controls over financial reporting.

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

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

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

2007 – 7 Information Systems Controls (Continued)

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

Questioned Costs: N/A

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

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

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

Recommendation: We recommend the following:

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

- The Department should remove programmer access from production applications and develop policies and procedures regarding programmer access. The policies and procedures should address controls over development, testing, security, compiling, or moving of programs to the production environment. The Department should institute a formal programming policy, procedure, and project management process that provides controls that cover the necessary review of all aspects of the programming function both internally and at vendors used to develop programs and web based applications. If access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.

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

Management Response: **Agree:** *The internal network is undergoing a multitude of changes including migration from the legacy DOT Microsoft Domain to the consolidated Executive Domain, network backbone infrastructure upgrades and upgrades to the Wide Area Network. The migration to the Executive Domain is expected to be completed by the second quarter 2008. Once the new infrastructure is in place, a vulnerability assessment will be conducted. DOT and Office of Technology (OT) will work together to determine if the assessment can be accommodated through OT or whether a third party will be engaged.*

2007 – 8 Land and Leases

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	20.205
Appalachian Development Highway System	23.003

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

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

- There was not a comprehensive detail of additions and disposals related to land and land improvements for the year provided by the Right of Way Division. Further, although the Department has a comprehensive detail list of all land and land improvements, it does not have a process in place to ensure that the listing is reconciled to the general ledger balances.
- There is no system to readily track leases or other property maintained by the Department.
- We noted that the one right of way auction there was no indication the sale was properly recorded in accounting due to the Right of Way division controlling the accounting instead of finance.
- We noted that the one right of way auction had not been removed from the records in a timely fashion due to a conflict as to where the sales proceeds should be applied.

Questioned Costs: N/A

Context: The total land and land improvements on the financial statement is approximately $20.7 million as of June 30, 2007.

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

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

2007 – 8 Land and Leases (Continued)

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

Management Response: **Agree:** *The Department had two presentations by outside vendors for a right of way tracking system during the past six months. The systems presented would allow for a complete tracking of the right of way process per parcel, project, and even individuals assigned. The Right of Way Division's proposed budget for FY 2008 included a line item for a similar system. Should this be approved a request for proposal and bidding process would be started.*

Districts are now submitting quarterly reports to allow central office to track acquisitions, sales and leases. The Department is currently working on developing our own system to track leases.

The subject property and structure were acquired for Highway Project APD-0484(115), Parcel 28 – Hardy County. The property was purchased as an uneconomic remnant from the owners. Being the property and structure were not needed for highway purposes, the district requested a Property Management authorization to auction the property and structure. Therefore, the Chief of Federal Aid (Right of Way) asked FHWA whether the sale should be credited to the statewide sale of federal-aid excess property or the APD project. The property was removed from the records as soon as response was given.

The Department will review its' current policies and procedures and make recommendations to establish sound record keeping and internal controls.

2007 – 9 Notice to Proceed - Utility Delays

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	20.205
Appalachian Development Highway System	23.003

Criteria: The management of the Department is responsible for establishing and maintaining adequate controls related to issuing a formal "notice to proceed" stipulating the date on which it is expected that a contractor should begin work on an awarded contract.

Condition: We reviewed contract jobs awarded during the fiscal year ended June 30, 2007 and noted the following:

- There were fifteen instances identified where contractors were provided with a formal notice to proceed prior to securing proper authorizations to proceed from utility companies resulting in idle equipment rental charges from the contractors.

Questioned Costs: Unknown

Context: The total amount of contracted awards for the year ended June 30, 2007 was approximately $713.3 million.

Cause: Utility companies failed to relocate utilities in accordance with dates prescribed in awarded contracts.

Effect: The lack of controls could result in significant idle equipment rental charges.

Recommendation: We recommend that the Department develop policies and procedures to eliminate its possible exposure to idle equipment rental charges.

Management Response: **Agree:** *The projects in question were designed and programmed prior to the acceptance of the compromise bill. A delay in the advertisement of these projects placed them in lettings after agreements had been made. The DOH failed to follow policies and procedures by not reviewing the Utility Status Dates in the contracts and by not requesting the Utilities to review and revise the dates they provided. By following the current policies and procedures, the DOH should eliminate its exposure to idle equipment charges due to Utility Delays.*

2007 – 10 Payroll Authorization Procedures

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

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

Condition: We reviewed individual employee payroll cash disbursements during the fiscal year ended June 30, 2007 and noted the following:

- There were 16 instances identified in which there was no approval of the daily time sheet.
- There were 4 instances in which the annual leave form was not approved by a supervisor.

Questioned Costs: Unknown

Context: Total payroll expense for fiscal year ended June 30, 2007 was approximately $164 million.

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

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

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

Management Response: **Agree:** *The Department's managerial staff will stress to our supervisory staff the importance of this functional control. It is certainly management intent to have all employees accountable for all payroll related matters.*

2007 – 11 Non-Compliance with Authorized Funding Techniques

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	20.205
Appalachian Development Highway System	23.003

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

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

Questioned Costs: Unknown

Context: Total federal expenditures for these programs was $386,418,784.

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

Effect: The funding method employed by the Department for payroll costs does not comply with the authorized funding technique as outlined in Section 6.2.1 of the TSA. This may result in each program having generated a State interest liability on payroll costs for fiscal year 2006 and 2007.

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

2007 – 11 Non-Compliance with Authorized Funding Techniques (Continued)

Management Response: **Agree:** *The Department will continue to meet with the State Treasurer's Office Staff in regards to CMIA issues. The Department has worked over a decade in establishing clearance patterns for reimbursable funding from FHWA. Currently, the Department provides the State Treasurer's Office the information requested and will continue to provide and work with them to meet the requirements of the CMIA review.*

2007 – 12 Subrecipient Monitoring – Policies and Procedures

Federal Program Information:	CFDA Number
U.S. Department of Transportation	
U.S. Appalachian Regional Commission	
Highway Planning and Construction Cluster	20.205
State & Community Highway Safety	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Safety Incentive Grants for Use of Seatbelts	20.604

Criteria: Pass-through entities are required to develop monitoring procedures including programmatic and financial monitoring to ensure subrecipients have used federal funds for authorized purposes. The Department performs some monitoring activities related to its subrecipients; however, the Department does not have a formalized monitoring plan in place to ensure that federal funds are spent for authorized purposes. We specifically noted the following items.

Condition: While reviewing the Department's subrecipient monitoring procedures, we noted the following:

- The Department does not perform desk reviews.
- There is no corrective action or auditee response to the noted findings for some of the items tested. There is no way to determine whether findings were sufficiently addressed.
- One instance was noted where a report was not received within 9 months of fiscal year end for one of twelve items tested.
- The audit report of the subrecipient was not stamped when received for two of twelve items tested.

Questioned Costs: Unknown

Context: Total federal subawards for these programs was $14,135,323.

Cause: Due to personnel turnover and time constraints, management indicated that a complete monitoring plan has not been developed.

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

Recommendation: We recommend that the Department develop a formalized desk review monitoring plan that includes the scope, and the monitoring procedures to be performed. The plan should be developed to ensure compliance with the requirements of the Office of Management and Budget Circular A-133.

2007 – 12 Subrecipient Monitoring – Policies and Procedures (Continued)

Management Response: **Agree:**

- *All of our projects are subject to, and actually do receive, audits performed by the WVDOH Auditing Division at the completion of each project. In addition, each invoice submitted by a project's Sponsor is reviewed and approved by the project manager and the SPR Accountant prior to payment. An A-133 audit is the yearly audit performed for the Sponsor if reimbursement to the Sponsor meets or exceeds $500,000 in federal funds during the fiscal year under which the project is developed. This is a total amount that may include federal funding from other sources, not just the WVDOH. In many cases we have reimbursed a Sponsor less than $100,000 and the Sponsor has received over $400,000 from other sources. Since these are in-depth audits often concerning other federal funding agencies than ours, we forward them to the WVDOH Auditing Division for their review. However, we understand that the Auditing Division does not intend to review these audits on a routine basis. Our staff is not qualified to review and comment on such audits in depth. We are greatly concerned that if we become the last office to review them, we will ultimately be held responsible for the "correctness" of these audits whether the WVDOH is the primary grantor agency or not. We feel that the audit/review process would be better served if an accredited in-house auditor were to routinely examine the A -133 audits following a review at our level. If this were the case, we would be far more comfortable performing our own reviews, as they relate to our own grant programs, particularly for those projects that receive $500,000 or more in reimbursement from WVDOH within a given fiscal year.*

- *In the future, we will attach a note regarding any required actions taken on an audit report.*

- *This is, and will likely continue to be, a problem. Fiscal years are varied and audits are often received late. Even those audits done through the State Auditor's office have been coming in late. We will keep working on this, but in many cases this is an issue beyond our direct control.*

- *We will attempt to stamp each report as received.*