

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

**A Component Unit of the State of West Virginia and
West Virginia Department of Transportation**

**Audited Financial Statements with Additional Information
For the Year Ended June 30, 2013
And Independent Auditor's Report**

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INDEPENDENT AUDITOR'S REPORT

Joint Committee on Government and Finance
West Virginia Legislature
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of West Virginia Department of Transportation, Division of Highways (the Division), a component unit of the State of West Virginia and the State of West Virginia Department of Transportation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Division as of June 30, 2013 and the respective changes in financial position and, when applicable, budgetary comparison information for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in fiscal year 2013, the Division adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections -2012- an amendment of GASB Statement No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Charleston, West Virginia

November 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the West Virginia Department of Transportation, Division of Highways (Division) annual financial report presents our discussion and analysis of the Division's financial performance during the fiscal year that ended June 30, 2013. This section introduces the basic financial statements and provides an analytical overview of the Division's financial activities. Please read it in conjunction with the Division's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Net Position - The net position of the Division was \$7.88 billion at the close of fiscal year 2013.

Changes in Net Position - During the year the Division's net position increased by \$181 million or 2.35%. This percentage is an increase from the prior year, when net position decreased \$49 million or .63%.

Revenues and Expenses - Total revenues decreased by \$41 million or 3.28%. Total expenses decreased \$271 million or 20.73%. There were no significant changes in the programs carried out by the Division during the year.

Governmental Fund - Fund Balances - As of the close of fiscal year 2013, the Division's governmental fund reported combined total fund equity of \$50 million, an increase of \$10 million in comparison with the prior year.

Long-term Debt - The Division's total outstanding general obligation bonds, net of bond premiums, decreased by \$25 million during the current fiscal year. The Division's total outstanding special obligation notes, net of note premium, decreased by \$23 million decreasing total long term debt by 13.10% during the current fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the Division's basic financial statements. The Division'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 Division's financial condition. Changes in the Division's financial position may be measured over time by increases and decreases in the Statement of Net Position. Information on how the Division's net position 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 Division, reporting the Division'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 Division has only one governmental financial reporting fund.

Notes to the Financial Statements

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Net Position

The following condensed financial information was derived from the government-wide statement of net position and summarizes the Division's net position as of June 30, 2013 and 2012 (amounts in thousands).

The largest component of the Division's net position 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 Division uses these capital assets to provide services to the citizens and businesses in the State; consequently, these resources are not available for future spending. The remaining portion is classified as either restricted or unrestricted net position. The unrestricted net position may be used at the Division's discretion. The restricted net position has constraints as to how these funds may be used. Enabling legislation directs the use of these funds.

Statement of Net Position
 June 30

	2013	2012	% Change
Assets and deferred outflows			
Total current assets	\$ 296,053	\$ 271,231	9.15%
Capital assets	8,217,318	8,109,900	1.32%
Other non-current assets	458	2,050	-77.66%
Total assets and deferred outflows	\$ 8,513,829	\$ 8,383,181	1.56%
Liabilities, deferred inflows and net position			
Total current liabilities	\$ 312,780	\$ 300,105	4.22%
Long term liabilities	315,065	378,118	-16.68%
Total liabilities and deferred inflows	627,845	678,223	-7.43%
Net position			
Invested in capital assets	7,871,718	7,712,955	2.06%
Restricted	11,077	17,350	-36.16%
Unrestricted	3,189	(25,347)	-112.58%
Total net position	7,885,984	7,704,958	2.35%
Total liabilities, deferred inflows and net position	\$ 8,513,829	\$ 8,383,181	1.56%

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

Condensed Statement of Activities

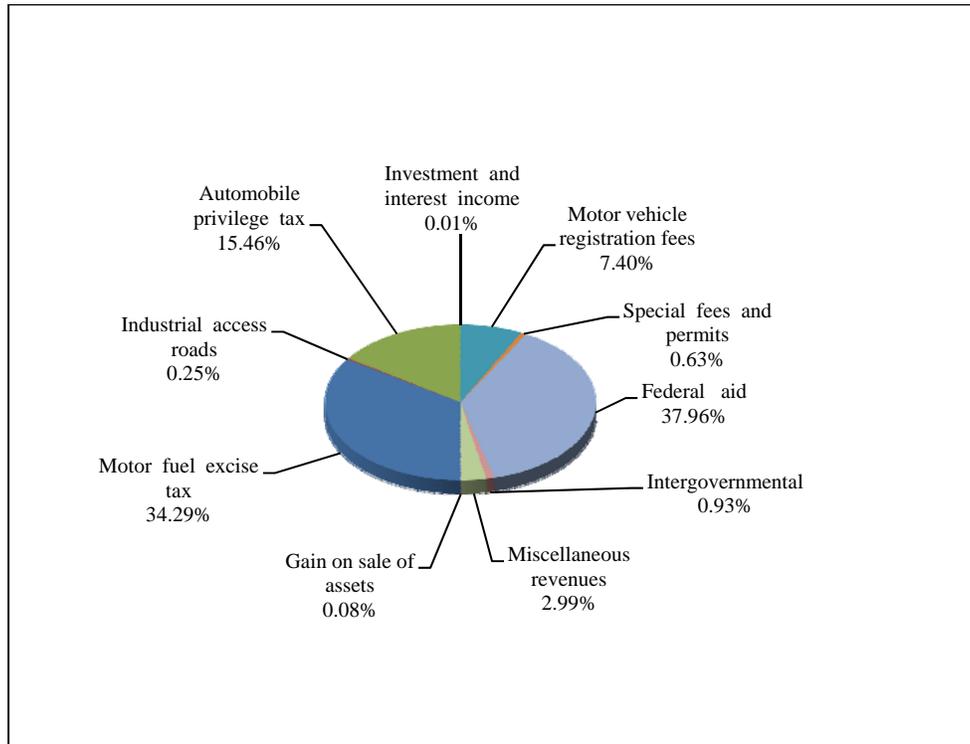
The following condensed financial information was derived from the government-wide statement of activities and reflects how the Division's net position changed during the fiscal year (amounts in thousands):

Statements of Activities Year Ended June 30,			
	2013	2012	% Change
Revenues			
Taxes	\$ 605,768	\$ 594,871	1.83%
Investment and interest income	87	209	-58.37%
Intergovernmental	11,340	28,078	-59.61%
Miscellaneous revenues	36,351	34,695	4.77%
Gain on sale of assets	985	2,149	-54.16%
Total general revenues	654,531	660,002	-0.83%
Capital grants and contributions	465,329	500,814	-7.09%
Charges for services	97,738	98,121	-0.39%
Total program revenues	563,067	598,935	-5.99%
Total revenues	1,217,598	1,258,937	-3.28%
Expenses			
Road maintenance	438,367	491,044	-10.73%
Other road operations	503,220	672,251	-25.14%
General and administration	74,821	123,397	-39.37%
Interest on long-term debt	15,728	17,136	-8.22%
Unallocated depreciation	4,436	3,751	18.26%
Total expenses	1,036,572	1,307,579	-20.73%
Change in net position	181,026	(48,642)	-472.16%
Net position, beginning	7,704,958	7,753,600	-0.63%
Net position, ending	\$ 7,885,984	\$ 7,704,958	2.35%

Over time, increases and decreases in net position measure whether the Division's financial position is improving or deteriorating. During the fiscal year, the net position of the governmental activities increased by \$181 million or 2.35%.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

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



Total revenues decreased by approximately \$41 million. Total tax revenues increased by approximately \$11 million. Federal aid revenue decreased by approximately \$36 million or 7.13%. The following summarizes revenues for the years ended June 30, 2013 and June 30, 2012 (amounts in thousands):

	2013	2012	Increase (Decrease)	% Increase (Decrease)
Motor fuel excise tax	\$ 417,571	\$ 408,571	\$ 9,000	2.20%
Industrial access roads	3,000	3,000	-	0.00%
Automobile privilege tax	188,197	186,300	1,897	1.02%
Motor vehicle registration fees	90,062	89,741	321	0.36%
Special fees and permits	7,676	8,380	(704)	-8.40%
Federal aid	462,329	497,814	(35,485)	-7.13%
Investment and interest income	87	209	(122)	-58.37%
Intergovernmental	11,340	28,078	(16,738)	-59.61%
Miscellaneous revenues	36,351	34,695	1,656	4.77%
Gain on sale of assets	985	2,149	(1,164)	-54.16%
	<u>\$ 1,217,598</u>	<u>\$ 1,258,937</u>	<u>\$ (41,339)</u>	-3.28%

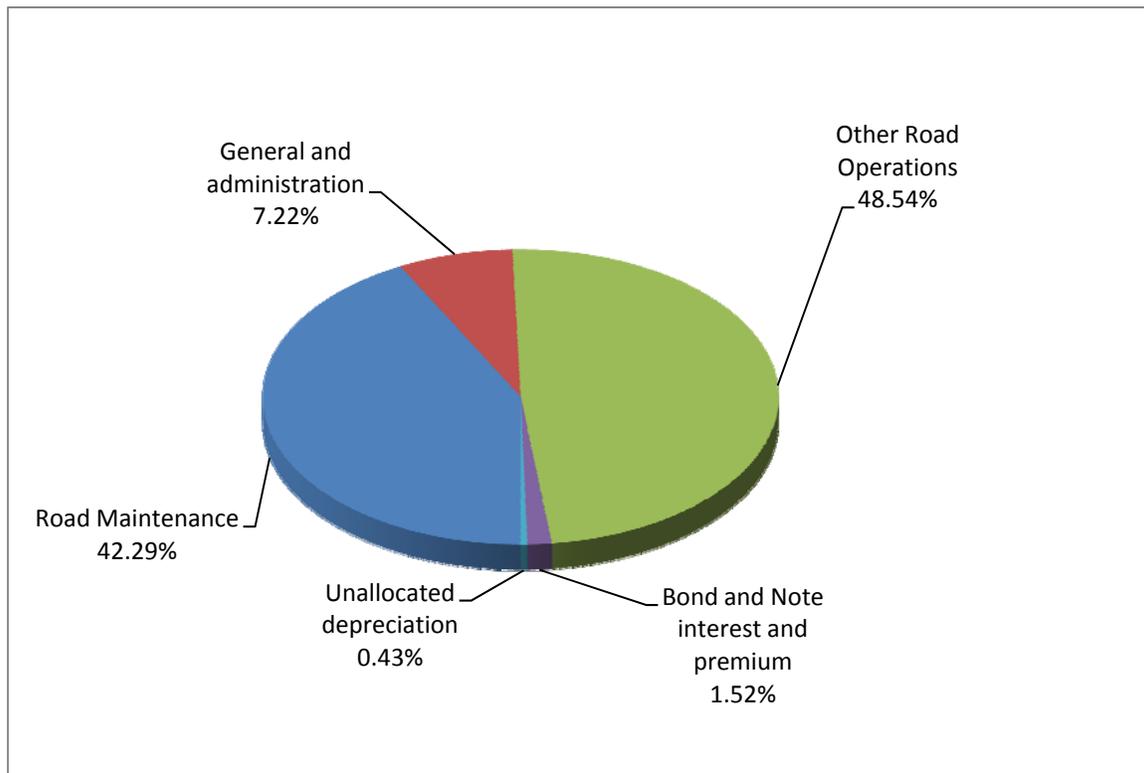
WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Division's primary sources of revenue for funding of ongoing administration of the Division, general maintenance and construction of the state road system and for providing resources to match available Federal funds 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

FY 2013 tax collections reported on a cash basis grew by \$22.7 million (3.41%) over FY 2012 tax collections. Motor fuel tax collections were \$1.0 million (0.26%) above estimates and \$21.8 million (5.65%) higher than FY 2012 collections. Privilege tax collections were \$13.4 million (7.71%) above estimates and \$1.1 million (0.61%) above FY 2012 collections. Registration fee collections were \$2.5 million (2.73%) above estimates and \$431 thousand (0.48%) below FY 2012 collections. In FY 2014, motor fuel tax, privilege tax collections and registration fee collections are all projected to be stagnant. As a result, many programs that are operated by the Division will experience little, if any, real growth in the foreseeable future, and it is possible that some programs will be reduced.

The Division 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 Division 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 2013 were authorized under the Highway Transit Bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU); and the American Recovery and Reinvestment Act of 2009 (ARRA); and the Moving Ahead for Progress in the 21st Century Act (MAP-21).

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



WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

Total expenses decreased by approximately \$271 million or 20.73%. The following summarizes expenditures for the years ended June 30, 2013 and June 30, 2012 (amounts in thousands):

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Road maintenance	\$ 438,367	\$ 491,044	\$ (52,677)	-10.73%
Other road operations	503,220	672,251	(169,031)	-25.14%
General and administration	74,821	123,397	(48,576)	-39.37%
Interest on long-term debt	15,728	17,136	(1,408)	-8.22%
Unallocated depreciation	4,436	3,751	685	18.26%
	<u>\$ 1,036,572</u>	<u>\$ 1,307,579</u>	<u>\$ (271,007)</u>	-20.73%

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

Operating units are allocated yearly amounts for routine maintenance. The type of routine maintenance expenses incurred is dependent, to a degree, on the level of snow removal and ice control (SRIC) that is required in a given year. In FY 2013, the agency continued its core maintenance plan, which emphasizes ditching, mowing, brush-cutting, and patching maintenance activities. County crews concentrate on these activities during all non-SRIC periods. The intent is to improve safety and perform maintenance that will extend the life of the highway system.

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

FINANCIAL ANALYSIS OF THE DIVISION'S MAJOR FUND

At June 30, 2013, the Division reported fund balances of approximately \$50 million. Of this total amount (\$4) million constitutes unassigned fund balance while \$11 million is restricted for various purposes. The remainder of fund balance is nonspendable and is not available for spending because it is comprised of inventories.

State Road Fund

The State Road Fund is the Division's General Fund. At the end of the 2013 fiscal year, unassigned fund balance of the General Fund was (\$4) million and nonspendable fund balance was \$43 million while the restricted fund balance was \$11 million. The total General Fund balance increased \$10 million during the fiscal year primarily due to decreased expenditures for road construction, maintenance and rehabilitation projects.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

State Road (General) Fund and Budgetary Highlights

The Division 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. As fuel consumption is forecast to decrease each year through FY 2019, it is expected to have a significant impact on revenue collections unless there is a corresponding change to the tax rates or structure. Neither Privilege tax collections nor registration fee collections are forecast to increase significantly through FY 2019. The following table summarizes tax and fee collections over the past two years (amounts in thousands):

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Motor fuel excise	\$ 417,571	\$ 408,571	\$ 9,000	2.20%
Motor vehicle registration	90,062	89,741	321	0.36%
Privilege tax	<u>188,197</u>	<u>186,300</u>	<u>1,897</u>	1.02%
	<u>\$ 695,830</u>	<u>\$ 684,612</u>	<u>\$ 11,218</u>	1.64%

The gasoline and special fuels excise tax was repealed by HB 218 passed during the 2008 Second Legislative Special Session, 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. The variable rate changed on January 1, 2013, when the rate rose from 12.9 cents to 14.2 cents per invoiced gallon.

The Division's federal revenue, on a cash (budgetary) basis for fiscal year 2013 was \$433.4 million, used primarily for design, right-of-way and construction of Corridor H, WV 9, and other major corridors including King Coal Highway, WV 10 and all other federal highways. As previously discussed the recognition of revenue under these grants occurs when expenditures occur on specific projects that have qualified for federal participation. The budgeted amounts for federal revenue and expenditures are based on projects that have been approved and estimates of the timing of each phase of the project. Since the timing of such expenditures are dependent on variables such as the weather, the existence of differing site conditions that require plan modification, or delays caused by environmental issues or the results of public meetings, expenditures often do not occur as planned. Federal revenue recognized in the Statement of Activities in each of the last two years is summarized below (amounts in thousands):

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Federal reimbursement-Budgeted funds	\$ 422,913	\$ 467,532	\$ (44,619)	-9.54%
Federal reimbursement-Surface Transportation	27,549	27,591	(42)	-0.15%
Federal reimbursement-Emergency funds	<u>11,867</u>	<u>2,691</u>	<u>9,176</u>	340.99%
	<u>\$ 462,329</u>	<u>\$ 497,814</u>	<u>\$ (35,485)</u>	-7.13%

It is anticipated that state revenues will basically remain unchanged in FY 2014. The Division's revenues are not projected to keep pace with increases in operating costs, and Management has taken steps to maintain a fiscally sound fund equity balance. The approved FY 2014 budget, exclusive of ARRA projects, which are 100% federally reimbursed is \$1.15 billion. If revenues are significantly less than estimated, Management is confident that adequate discretionary expenditure items can be reduced to permit the Division to continue to operate in a fiscally sound manner.

The Division is currently operating under a twenty-seven month federal highway funding authorization designated as Moving Ahead for Progress in the 21st Century Act (MAP-21). The effective date for most highway provisions in MAP-21, both funding and changes to policy, is October 1, 2013. West Virginia's FFY 2013 apportionment will be \$423.3 million, and its FFY 2014 apportionment will be \$426.9 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013 the Division had invested \$8.2 billion, net of accumulated depreciation, in a range of capital assets (see note 7 for additional details). Depreciation charges for the fiscal year totaled \$326 million.

As the Division continues to expand the state road system, these expansions are focused primarily on upgrading existing roadways and completion of Appalachian Highway Corridors. While these are significant construction projects, the additions are offset by \$300 million in depreciation of the infrastructure. The Division expended \$435 million dollars during the year ended June 30, 2013 for additions to capital assets. Of this amount, \$409 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 \$366 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 and Grant Counties, the replacement of the Dick Henderson Memorial Bridge in Kanawha County, deck reconstruction of the existing Interstate 64 Dunbar/South Charleston Bridge in Kanawha County, upgrades to the Eugene A. Carter Memorial Bridge and the junction area of Interstate 64/Interstate 77 in Kanawha County, completion of the WV Route 9 Shenandoah River Bridge in Jefferson County, upgrade of the Guyandotte River Bridge on WV Route 10 in Logan County, construction of the Hinton to South Richmond section of the New River Parkway in Raleigh County, and continued environmental studies on various projects in process.

Long-term Debt

The Division has been authorized to issue bonds by constitutional amendments and all bonds are general obligation bonds of the State of West Virginia. All bonds authorized under prior constitutional amendments have been issued. At June 30, 2013, the Division had \$245 million in outstanding bonds. The amount outstanding decreased by \$25 million (9.32%) due to net principal payments.

The Division has also been authorized to issue revenue notes in the amount of \$200 million by constitutional amendment. The Division issued revenue notes in the amount of \$76 million in October 2006, \$33 million in April 2007, and \$77 million during fiscal year 2010. These notes are revenue notes and the debt service payments will be funded through federal aid revenue. At June 30, 2013, the Division had \$77 million in outstanding revenue notes. The amount decreased by \$23 million (23.28%) due to net principal payments.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Unaudited)

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 05A - Bonds maturing on or before June 1, 2025	Insured by FSA	Fitch: AA+ Moody's: Aa1 S&P: AA	\$ 210,230
Safe Roads 10A - Bonds maturing on or before June 1, 2023.	Insured by FSA	Fitch: AA+ Moody's: Aa1 S&P: AA	35,135
Surface Transportation Improvements Special Obligation Notes (GARVEE 2006A) - Notes maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Moody's: Aa3 S&P: AA	28,810
Surface Transportation Improvements Special Obligation Notes (GARVEE 2007A) - Notes Maturing on or before June 1, 2016	Not Insured - notes maturing Sept. 1, 2008 Insured by FSA - notes maturing after Sept. 1, 2008	Moody's: Aa3 S&P: AA	12,480
Surface Transportation Improvements Special Obligation Notes (GARVEE 2009A) - Notes Maturing on or before June 1, 2016	Insured by FSA	Moody's: Aa3 S&P: AA	35,710
			\$ 322,365

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

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Division 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, Division of Highways at 1900 Kanawha Boulevard, East, Building 5, Room 220, Charleston, West Virginia 25305.

BASIC FINANCIAL STATEMENTS

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF NET POSITION
 JUNE 30, 2013
 (amounts expressed in thousands)

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	\$	99,288
Accounts receivable, net		67,378
Taxes receivable		80,940
Due from other State of West Virginia agencies		5,497
Inventories		42,950
Total current assets		296,053
Non-current assets		
Capital assets not being depreciated		
Land - non-infrastructure		21,543
Land - infrastructure		1,039,165
Construction in progress		783,128
Capital assets net of accumulated depreciation		
Land improvements		8,591
Buildings		93,901
Furniture and fixtures		1,115
Rolling stock		64,660
Scientific equipment		280
Shop equipment		74
Roads		3,938,068
Bridges		2,266,793
Total capital assets		8,217,318
Other non-current assets		458
Total non-current assets		8,217,776
Deferred outflows		
Total deferred outflows		-
Total assets and deferred outflows		8,513,829
LIABILITIES		
Current liabilities		
Accounts payable		93,451
Retainages payable		3,297
Accrued payroll and related liabilities		12,672
Other Post Employment Benefits Liability		132,775
Due to other State of West Virginia agencies		3,754
Accrued interest payable		2,203
Current maturities of long term obligations		64,628
Total current liabilities		312,780
Non-current liabilities		
Claims and judgments		17,500
Compensated absences		4,020
Bonds and notes		293,545
Total non-current liabilities		315,065
Deferred inflows		
Total deferred inflows		-
Total liabilities and deferred inflows		627,845
NET POSITION		
Invested in capital assets		7,871,718
Restricted		
Coal Resource		6,283
Waste Tire		2,605
Industrial Access		2,189
Unrestricted		3,189
Total net position		\$ 7,885,984

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013
 (amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expenses) and Changes in Net Position
		Charges for Services	Capital Grants and Contributions	
Government activities				
Road maintenance				
Expressway, trunkline & feeder & SLS	\$ 337,436	\$ -	\$ -	\$ (337,436)
Contract paving & secondary roads	57,386	-	-	(57,386)
Small bridge repair & replacement	20,628	-	-	(20,628)
Litter control program	1,880	-	-	(1,880)
Depreciation	21,037	-	-	(21,037)
Other road operations				
Interstate highways	26,404	-	90,213	63,809
Appalachian highways	714	-	49,451	48,737
Other federal aid programs	159,235	-	322,665	163,430
Non federal aid improvements	14,021	-	-	(14,021)
Industrial access roads	2,651	-	3,000	349
Depreciation	300,195	-	-	(300,195)
General and administration				
Support and administrative operations	34,179	7,676	-	(26,503)
Claims	2,147	-	-	(2,147)
Costs associated with DMV	36,702	90,062	-	53,360
Costs associated with OAH	1,793	-	-	(1,793)
Interest on long-term debt	15,728	-	-	(15,728)
Unallocated depreciation	4,436	-	-	(4,436)
	<u>\$ 1,036,572</u>	<u>\$ 97,738</u>	<u>\$ 465,329</u>	<u>(473,505)</u>
General revenues				
Taxes:				
Gasoline and motor carrier				417,571
Automobile privilege				188,197
Investment and interest income				87
Intergovernmental				11,340
Miscellaneous revenues				36,351
Gain on sale of assets				985
Total general revenues				<u>654,531</u>
Change in net position				181,026
Net position, beginning				7,704,958
Net position, ending				<u>\$ 7,885,984</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 BALANCE SHEET - GOVERNMENTAL FUND
 JUNE 30, 2013
 (amounts expressed in thousands)

	State Road (General)
ASSETS	
Assets	
Cash and cash equivalents	\$ 99,288
Receivables	67,378
Taxes receivable	80,940
Due from other State of West Virginia agencies	5,497
Inventories	42,950
Total assets	\$ 296,053
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 93,451
Retainages payable	3,297
Accrued payroll and related liabilities	12,672
Other post employment benefits	132,775
Due to other State of West Virginia agencies	3,754
Total liabilities	245,949
Fund balances	
Non-spendable	
Inventories	42,950
Restricted	
Construction and maintenance of industrial access roads	2,189
Construction and maintenance of coal resource roads	6,283
Waste tire clean up and disposal	2,605
Unassigned	(3,923)
Total fund balances	50,104
Total liabilities and fund balances	\$ 296,053

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
 DIVISION OF HIGHWAYS
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013
 (amounts expressed in thousands)

Total fund balance - governmental fund \$ 50,104

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

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

Capital assets not being depreciated		
Land - non-infrastructure	\$ 21,543	
Land - infrastructure	1,039,165	
Construction in progress	783,128	
Capital assets net of accumulated depreciation		
Land improvements	8,591	
Buildings	93,901	
Furniture and fixtures	1,115	
Rolling stock	64,660	
Scientific equipment	280	
Shop equipment	74	
Roads	3,938,068	
Bridges	2,266,793	8,217,318

Bonds issued by the Division have associated costs that are paid from current available financial resources in the funds. However, certain insurance costs are deferred on the statement of net position. 458

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

Accrued interest payable	(2,203)	
Claims and judgments	(18,248)	
Compensated absences	(15,845)	
General obligation bonds and revenue notes	(345,600)	(381,896)

Net position of governmental activities \$ 7,885,984

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION,
DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	State Road (General)
Revenues	
Taxes	
Gasoline and motor carrier	\$ 417,571
Automobile privilege	188,197
Industrial access roads	3,000
License, fees and permits	
Motor vehicle registrations and licenses	90,062
Special fees and permits	7,676
Federal aid	
Interstate highways	90,213
Appalachian highways	49,451
Other federal aid programs	322,665
Investment and interest income, net of arbitrage rebate	87
Intergovernmental	11,340
Miscellaneous revenues	36,351
Total revenues	1,216,613
Expenditures	
Current	
Road maintenance	
Expressway, trunkline and feeder, state and local services	337,538
Contract paving and secondary roads	57,386
Small bridge repair and replacement	29,148
Litter control program	1,880
Support and administrative operations	76,203
Division of Motor Vehicles operations	36,702
Office of Administration Hearings operations	1,793
Claims	2,092
Capital outlay and other road operations	
Road construction and other road operations	
Interstate highways	108,503
Appalachian highways	68,957
Other federal aid programs	396,979
Nonfederal aid construction and road operations	21,500
Industrial access roads	2,651
Debt service	
Debt Service Fees	4
Principal	48,600
Interest	17,349
Total expenditures	1,207,285
Excess of revenues over expenditures	9,328
Other financing sources (uses)	
Proceeds of sale of assets	1,185
Net change in fund balances	10,513
Fund balances, beginning of year	39,591
Fund balances, end of year	\$ 50,104

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

Net change in fund balance - governmental fund \$ 10,513

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 \$433,287 exceeded depreciation of (\$325,668) in the current period. 107,619

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 position differs from the change in fund balance by the undepreciated cost of the assets sold. (201)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of position. 48,600

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 \$12,926, bond premium of \$2,744, and interest payable of \$470 exceed the increase in claims of (\$54) and the amortization of bond insurance costs of (\$1,591). 14,495

Change in net position of governmental activities \$ 181,026

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION, DIVISION OF HIGHWAYS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(BUDGETARY BASIS) - STATE ROAD FUND
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	Original Budget	Budget Amendments	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues					
Taxes					
Gasoline and motor carrier	\$ 410,000	\$ -	\$ 410,000	\$ 408,915	\$ (1,085)
Automobile privilege	174,014	-	174,014	187,437	13,423
Motor vehicle registrations and licenses	92,787	-	92,787	90,252	(2,535)
Revenue Transfer to Industrial Access Roads	(3,000)	-	(3,000)	(3,000)	-
Federal aid	497,000	-	497,000	433,493	(63,507)
Miscellaneous revenues	39,005	-	39,005	37,851	(1,154)
	<u>1,209,806</u>	<u>-</u>	<u>1,209,806</u>	<u>1,154,948</u>	<u>(54,858)</u>
Expenditures					
Road construction and other road operations					
Interstate highways	120,000	-	120,000	104,469	15,531
Appalachian highways	120,000	(10,000)	110,000	90,661	19,339
Other federal aid programs	350,000	-	350,000	349,959	41
Nonfederal aid construction	12,500	5,000	17,500	17,476	24
Federal economic stimulus	3,000	2,000	5,000	2,884	2,116
Road maintenance					
Maintenance	354,846	-	354,846	337,424	17,422
Contract paving and secondary roads	60,000	4,000	64,000	62,337	1,663
Small bridge repair and replacement	30,000	-	30,000	23,579	6,421
Litter control program	1,755	-	1,755	1,755	-
Support and administrative operations					
General operations	55,033	-	55,033	44,101	10,932
Equipment revolving	15,000	-	15,000	7,572	7,428
Inventory revolving	4,000	-	4,000	(7,240)	11,240
Debt service	38,500	-	38,500	38,380	120
Division of Motor Vehicles operations	40,579	-	40,579	36,630	3,949
Office of Administrative Hearings operations	1,952	-	1,952	1,792	160
Claims - DOH and DMV	2,094	-	2,094	2,092	2
	<u>1,209,259</u>	<u>1,000</u>	<u>1,210,259</u>	<u>1,113,871</u>	<u>96,388</u>
Excess (deficiency) of revenues over expenditures	547	(1,000)	(453)	41,077	41,530
Fund balance, beginning of year	46,375	-	46,375	46,375	-
Fund balance, end of year	\$ 46,922	\$ (1,000)	\$ 45,922	\$ 87,452	\$ 41,530

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements of the Division are intended to present the financial position, and the results of operations of only that portion of the financial reporting entity of the West Virginia Department of Transportation and the State of West Virginia, that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the West Virginia Department of Transportation or the State of West Virginia as of June 30, 2013 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

The Public Service Commission collects revenues from coal companies that are operating trucks with excessive weights. These revenues are deposited into the Coal Resource Fund, which is controlled by the Division.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - The government-wide financial statements (the statement of net position 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 Division does not allocate general government (indirect) expenses to other functions.

Net position is 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 position. The government-wide statement of net position reports \$11,077 restricted assets, of which all is restricted by enabling legislation.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources, as they are needed. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements, as necessary.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION -

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Principal revenues subject to accrual include gasoline and wholesale fuel taxes, automobile privilege taxes, federal reimbursements and other reimbursements for use of materials and services.

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

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.
- Division employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the Division, an employee's sick leave benefits are considered ended and no reimbursement is provided. Any employee who retires, however, may convert any unused accumulated sick leave to increase service credits for retirement purposes. Additionally, certain employees may choose to apply any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium in lieu of increasing their service credits. Those employees cannot split their unused leave between the two options.
- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for transfer to the fiscal agent or for payment to be made early in the following year.
- Claims and judgments are recorded only when payment is due.

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

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

- **State Road (General) Fund** - This fund serves as the Division's general fund and is used to account for all financial resources, except those required to be accounted for in another fund. The State Road Fund is funded primarily by dedicated highway user taxes and fees and matching federal highway funds.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013
 (amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Division processes certain routine payments, such as payroll through the State Road Fund and allocates those costs to the other governmental funds based on individual projects charged. The interfund balances at June 30, 2013 generally are a result of these routine payments and transfers. At June 30, 2013 there was no interfund activity.

BUDGETING AND BUDGETARY CONTROL - The Division's expenditures are subject to the legislative budget process of the State, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year-end to allow for payment of invoices up to 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 Division's overall financial plan, which includes revenue estimates developed by the Division and the State's executive branch. Expenditures are budgeted using natural categories of activity including specific categories of construction, maintenance, and operations, as well as special items. Any revisions that alter overall budgeted expenditures for an expenditure category must be approved by the State Legislature.

The Division's State Road (General) Fund which includes the State Road Fund and A. James Manchin Fund has a legislatively approved budget. However, the Coal Resource Fund, Industrial Access Fund and certain monies reported within the State Road Fund in accordance with accounting principles generally accepted in the United States of America are not considered appropriated funds in accordance with the Division's budgetary reporting policy. Accordingly, these funds have not been reported in the Division's Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - State Road Fund. A reconciliation of the excess of revenues over expenditures and other financing uses for the year ended June 30, 2013, on the budgetary basis to the GAAP basis for the State Road fund follows:

Excess of revenues over expenditures - budgetary basis	\$	41,077
Basis of accounting differences (budgetary to GAAP)		(36,471)
Unbudgeted funds		<u>4,722</u>
 Excess of revenues over expenditures - GAAP basis	 \$	 <u>9,328</u>

CASH AND CASH EQUIVALENTS - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Board of Treasury Investments (BTI). Interest income from these investments is prorated to the Division at rates specified by the BTI based on the balance of the Division'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.

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

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

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

New construction is put into construction in process until completed. At that time the projects are evaluated to determine if they meet the threshold for capitalization. The projects that don't meet the threshold for capitalization are expensed.

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 | • Scientific equipment: 3 - 25 years |
| • Buildings: 40 years | • Infrastructure: roads - 30 years |
| • Furniture and fixtures: 3 - 20 years | • Infrastructure: bridges - 50 years |
| • Rolling stock: 3 - 20 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 motor fuel excise 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 Division in the West Virginia State Court of Claims must be approved and funded by legislative action. Expenditures in the fund financial statements for such claims are recognized to the extent that claims awarded are approved and funded by the Legislature. A liability for unfunded claims is recorded in the government-wide financial statements when management and the Division's legal section determine that it is probable that a loss has occurred and the loss can be reasonably estimated. Such claims are segregated as either tort or contract actions and estimates of loss are based on an analysis of the individual claims and historical experience.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES - Division employees generally earn vacation and sick leave on a monthly basis. Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. During 2008, the legislature passed a bill allowing regular full time employees hired before July 1, 2001, having accumulated at least 65 days of sick leave, to be paid, at their option, for a portion of their unused sick leave, not to exceed the number of sick leave days that would reduce the employee's sick leave balance to less than fifty days. The employee shall be paid at a rate equal to one quarter of their usual rate of daily pay during that calendar year. Expenditures for compensated absences are recognized as incurred in the governmental fund financial statements. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

POSTEMPLOYMENT BENEFITS - For employees hired prior to July 1, 2001, any unused 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, based on hire dates, periods of service and benefit amendments. To the extent that eligible conversion and retirement benefits are determined, a liability in the governmental fund financial statements has been accrued as a result of the Division's participation on the State's post-employment benefits plan, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. See Note 13.

RETIREMENT BENEFITS - The Division's employees are covered by the West Virginia Public Employees Retirement System (PERS), a multi-employer cost-sharing defined benefit pension plan. PERS covers substantially all employees of the Division, with employer contributions prescribed by the State Legislature 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, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. 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, other than bond insurance, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

DEFERRED INFLOWS/OUTFLOWS - A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. The Division accounts for deferred inflows and outflows of resources in accordance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Division did not have any deferred inflows/outflows of resources at June 30, 2013.

INTERGOVERNMENTAL REVENUE - Intergovernmental revenue represents legally authorized appropriations under West Virginia State Code by the West Virginia Legislature.

NET POSITION - As required by GASB Standards, the Division displays net position in the government-wide financial statements in three components: invested in capital assets, net of related debt; restricted and unrestricted.

INVESTED IN CAPITAL ASSETS - This component of net position consists primarily of capital assets, including restricted capital assets, 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 POSITION - Restricted net position is assets whose use or availability has been restricted and the restrictions limit the Division's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Division's policy to use restricted resources first, then unrestricted resources as needed.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
DIVISION OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

UNRESTRICTED NET POSITION - Unrestricted net position consist of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.” In the governmental environment, net position is 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 position.

FUND BALANCE - In accordance with GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions the division has classified in the governmental fund financial statements its fund balances in the following categories: nonspendable, restricted, committed, assigned and unassigned as applicable.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

The restricted fund balance classification includes amounts restricted for use to specific purposes including externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; imposed by law through constitutional provisions, or enabling legislation including legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by appropriation legislation passed by the West Virginia State Legislature, which is the highest level of decision making authority for the State. Those committed amounts cannot be used for any other purpose unless the West Virginia State Legislature passes new legislation concerning those amounts.. The Division has no committed fund balances at June 30, 2013.

Assigned fund balances are constrained by the Division’s intent to use such funds for specific purposes, but are neither restricted nor committed. The specific purpose for which the funds are intended is expressed within the appropriation requests of the Division and approved by the State Budget Office, according to the West Virginia State Code. Assigned fund balances include all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. The Division has no assigned fund balances at June 30, 2013.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Any negative fund balances are unassigned.

The Division first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

RECENT STATEMENTS ISSUED BY THE GASB -

The Governmental Accounting Standards Board has also issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - an amendment of GASB Statements No. 3, No. 6, No. 10, No. 15, No. 17, No. 23, No. 25, No. 27, No. 28, No. 31, and No. 33, effective for fiscal years beginning after December 15, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The adoption of GASB Statement No. 63 had no financial impact on the June 30, 2013 financial statements, it only improved readability.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for fiscal years beginning after December 15, 2012. This statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The early adoption of GASB Statement No. 65 had no material impact on the June 30, 2013 financial statements, but improved readability.

The Governmental Accounting Standards Board has also issued Statement No. 66, Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62, effective for fiscal years beginning after December 15, 2012. This statement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The adoption of this statement did not have a material effect on the financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 67, Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25, effective for fiscal years beginning after June 15, 2013. This statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The Division has not yet determined the effect that the adoption of GASB Statement No. 67 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Division has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 69, Government Combinations and Disposals of Government Operations, effective for fiscal years beginning after December 15, 2013. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Division has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for fiscal years beginning after June 15, 2013. This Statement will improve the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Division has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	\$ 12,149	\$ 12,149
Cash on deposit with State Treasurer in Debt Service Fund	5	5
Cash on deposit with State Treasurer invested in BTI WV Money Market Pool	87,127	87,127
Cash in transit	7	7
	\$ 99,288	\$ 99,288

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

West Virginia Board of Treasury Investments (BTI) WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool

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 is 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 the 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 pools and accounts in which the Division invest, all are subject to credit risk.

WV Money Market Pool - Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2013, the WV Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P-1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues. At June 30, 2013, the WV Money Market Pool investment had a total carrying value of \$2,495,868 of which the Division’s ownership represents 3.49%.

Interest Rate Risk

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 229,326	3
U.S. Treasury notes	279,755	132
U.S. Treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. agency discount notes	445,784	47
Corporate bonds and notes	10,000	60
U.S. agency bonds	66,603	139
Money market funds	200,012	1
	\$ 2,495,868	52

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NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Other Risks of Investing

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the 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 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 or 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. 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 Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The above pool does not contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 consisted of the following:

Federal aid billed and not paid	\$	16,924
Federal aid earned but not billed		43,496
Total federal aid receivable		60,420
Other receivables		7,268
Combined total receivables		67,688
Less: allowance for uncollectibles		(310)
Net accounts receivable	\$	67,378

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.

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NOTE 4: TAXES RECEIVABLE

Taxes receivable at June 30, 2013 consisted of the following:

Automobile privilege taxes	\$ 17,868
Motor fuel excise taxes	60,281
Registration fees	<u>2,791</u>
 Total taxes receivable	 <u><u>\$ 80,940</u></u>

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

Amounts due from other State of West Virginia agencies at June 30, 2013 consisted of the following:

The Department of Motor Vehicles	\$ 1,983
Other agencies	<u>3,514</u>
 Total amounts due from other State of West Virginia agencies	 <u><u>\$ 5,497</u></u>

Amounts due to other State of West Virginia agencies at June 30, 2013 consisted of the following:

Public Employee's Insurance Agency	\$ 1,917
Public Employee's Retirement	1,639
Other agencies	<u>198</u>
 Total amounts due to other State of West Virginia agencies	 <u><u>\$ 3,754</u></u>

NOTE 6: INVENTORIES

Inventories at June 30, 2013 consisted of the following:

Material and supplies	\$ 29,163
Equipment repair parts	9,645
Gas and lubrication supplies	<u>4,142</u>
 Total inventories	 <u><u>\$ 42,950</u></u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land - non infrastructure	\$ 23,025	\$ 431	\$ 1,913	\$ 21,543
Land - infrastructure	986,302	52,863	-	1,039,165
Construction-in-progress - buildings	10,923	12,009	9,149	13,783
Construction-in-progress - land improvements	958	1,264	1,353	869
Construction-in-progress - roads	585,251	209,438	229,687	565,002
Construction-in-progress - bridges	198,241	147,431	142,198	203,474
Total capital assets not being depreciated	<u>1,804,700</u>	<u>423,436</u>	<u>384,300</u>	<u>1,843,836</u>
Capital assets being depreciated:				
Buildings	136,045	10,217	421	145,841
Furniture and fixtures	4,488	323	-	4,811
Land improvements - non infrastructure	12,161	1,531	-	13,692
Rolling stock	244,227	15,622	7,674	252,175
Shop equipment	3,057	56	6	3,107
Scientific equipment	2,884	64	99	2,849
Infrastructure - roads	8,429,372	226,476	-	8,655,848
Infrastructure - bridges	2,728,343	139,862	-	2,868,205
Total capital assets being depreciated	<u>11,560,577</u>	<u>394,151</u>	<u>8,200</u>	<u>11,946,528</u>
Less accumulated depreciation:				
Buildings	48,706	3,649	415	51,940
Furniture and fixtures	3,492	204	-	3,696
Land improvements - non infrastructure	4,518	583	-	5,101
Rolling stock	174,149	20,850	7,484	187,515
Shop equipment	3,017	22	6	3,033
Scientific equipment	2,498	165	94	2,569
Infrastructure - roads	4,472,210	245,570	-	4,717,780
Infrastructure - bridges	546,787	54,625	-	601,412
Total accumulated depreciation	<u>5,255,377</u>	<u>325,668</u>	<u>7,999</u>	<u>5,573,046</u>
Total capital assets being depreciated, net	<u>6,305,200</u>	<u>68,483</u>	<u>201</u>	<u>6,373,482</u>
Governmental activities capital assets, net	<u>\$ 8,109,900</u>	<u>\$ 491,919</u>	<u>\$ 384,501</u>	<u>\$ 8,217,318</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 7: CAPITAL ASSETS (Continued)

Current year depreciation totaling \$321,232 was allocated as separate line items in the statement of activities under the major functions of the Division of Maintenance and Improvements. The remaining \$4,436 unallocated depreciation expense is included as a separate line item in the statement of activities. Infrastructure depreciation is primarily related to construction type activities; depreciation of shop and rolling stock assets is primarily related to maintenance type activities; and depreciation of buildings and improvements and furniture and fixtures support all of the various activities of the Division.

A summary of depreciation on each capital asset type follows:

Buildings and improvements	\$	3,649
Furniture and fixtures		204
Land improvements		583
Total unallocated		4,436
Rolling stock		20,850
Shop equipment		22
Scientific equipment		165
Total road maintenance		21,037
Infrastructure - roads		245,570
Infrastructure - bridges		54,625
Total other road operations		300,195
Total depreciation expense	\$	325,668

NOTE 8: RETAINAGES PAYABLE

Retainages payable includes funds withheld from payments to consulting firms and construction contractors. Retainage payments are made to the consultants and contractors when work is satisfactorily completed. The Division has entered into an arrangement with the BTI whereby amounts retained from payments to construction contractors may, at the option of the contractor, be deposited in an interest bearing account in the contractor's name. The funds on deposit in these accounts are not reported as assets of the Division. At June 30, 2013, retainages payable included \$0 that was on deposit at BTI for construction contractors.

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2013, 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	2001	3.50% - 5.50%	06/01/2013	\$ 1,565	\$ -	\$ 1,565	\$ -
Safe road bonds	2005	3.00% - 5.00%	06/01/2025	233,895	-	23,665	210,230
Safe road bonds	2010	4.00%	06/01/2023	35,135	-	-	35,135
Total general obligation bonds				270,595	-	25,230	245,365
Bond premium				21,902	-	1,726	20,176
Total general obligation bonds payable net of premium				292,497	-	26,956	265,541
Revenue notes payable from federal aid revenue:							
Surface transportation improvements special notes (Garvee 2006A)	2006	3.75% - 5.00%	06/01/2016	37,545	-	8,735	28,810
Surface transportation improvements special notes (Garvee 2007A)	2007	4.00% - 5.00%	06/01/2016	16,270	-	3,790	12,480
Surface transportation improvements special notes (Garvee 2009A)	2009	3.75% - 5.00%	06/01/2016	46,555	-	10,845	35,710
Total revenue notes payable				100,370	-	23,370	77,000
Bond premium				4,078	-	1,019	3,059
Total general obligation notes payable net of premium				104,448	-	24,389	80,059
Claims and judgments				18,194	3,000	2,946	18,248
Compensated absences				28,771	1,786	14,712	15,845
Total long-term obligations				\$ 443,910	\$ 4,786	\$ 69,003	\$ 379,693

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
 DIVISION OF HIGHWAYS
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

General obligation bond issues are authorized by constitutional amendments and are general obligations of the State of West Virginia. Legislation implementing the amendments requires 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.

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 included interest of \$17,349 for the year ended June 30, 2013. Total debt service costs, exclusive of coupon redemption costs, for each of the next five years and thereafter, on general obligation bonds payable and revenue notes payable liquidated through debt service funds, are as follows:

	2014	2015	2016	2017	2018	2019- 2023	2024- 2025	Total
General obligation bonds payable from tax revenue:								
Safe road bonds	\$ 36,757	\$ 36,765	\$ 36,765	\$ 23,301	\$ 23,301	\$ 116,008	\$ 47,031	\$ 319,928
Less: interest	11,917	10,675	9,370	8,001	7,236	24,058	3,306	74,563
Total principal	24,840	26,090	27,395	15,300	16,065	91,950	43,725	245,365
Bond premium	1,721	1,721	1,721	1,721	1,721	8,585	2,986	20,176
Total principal and bond premium	<u>\$ 26,561</u>	<u>\$ 27,811</u>	<u>\$ 29,116</u>	<u>\$ 17,021</u>	<u>\$ 17,786</u>	<u>\$ 100,535</u>	<u>\$ 46,711</u>	<u>\$ 265,541</u>
Revenue notes payable from federal aid revenue:								
Surface transportation special obligation notes	\$ 27,519	\$ 27,504	\$ 27,499	\$ -	\$ -	\$ -	\$ -	\$ 82,522
Less: interest	3,044	1,854	624	-	-	-	-	5,522
Total principal	24,475	25,650	26,875	-	-	-	-	77,000
Note premium	1,019	1,019	1,021	-	-	-	-	3,059
Total principal and note premium	<u>\$ 25,494</u>	<u>\$ 26,669</u>	<u>\$ 27,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,059</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

In 2005, the 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. The refinancing was 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. The defeased bonds were called on June 1, 2010 and are no longer outstanding.

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. The Division sold \$76,835 of additional Garvee notes during the fiscal year ending June 30, 2009.

The Division issued on behalf of the State of West Virginia, \$35,135 in General Obligation State Road Refunding Bonds, Series 2010A on July 22, 2010, resulting in proceeds of \$38,048. This bond issue refunds Series 1998 and Series 2001 General Obligation State Road Bonds with cumulative outstanding principal of \$37,730, and will result in a net present value savings of \$4,265 over the life of the bond issue. The bonds that were refunded were called on June 1, 2011 and are no longer outstanding.

Long term obligations for compensated absences, claims payable, and general obligation bonds are as follows:

	<u>Compensated Absences</u>	<u>Claims and Judgments</u>	<u>Obligation Bonds and Revenue Notes and Premium</u>	<u>Total</u>
Current liabilities	\$ 11,825	\$ 748	\$ 52,055	\$ 64,628
Long-term liabilities	<u>4,020</u>	<u>17,500</u>	<u>293,545</u>	<u>315,065</u>
	<u>\$ 15,845</u>	<u>\$ 18,248</u>	<u>\$ 345,600</u>	<u>\$ 379,693</u>

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
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NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Estimated claims liability, July 1	\$ 18,194	\$ 13,981	\$ 18,485
Additions for claims incurred during the year	748	2,094	2,391
Changes in estimates for claims of prior periods	1,400	4,510	(5,331)
Payments on claims	<u>(2,094)</u>	<u>(2,391)</u>	<u>(1,564)</u>
Estimated claims liability, June 30	<u>\$ 18,248</u>	<u>\$ 18,194</u>	<u>\$ 13,981</u>

At June 30, 2013, approximately \$16,000 of tort claims and \$1,500 in environmental claims were pending against the Division in the West Virginia State Court of Claims. With respect to these claims, the Division has an estimated obligation of \$17,500 recorded in the government-wide Statement of Net Position, 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 \$748 thousand. During the normal course of operations, the Division may become subject to other litigation. No provision has been made in the financial statements for liabilities, if any, from such litigation.

The Division's obligation for accrued vacation leave time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated. Upon retirement, an employee may apply unused sick leave to reduce their future insurance premiums paid to the West Virginia Public Employees Insurance Agency or apply unused sick leave or annual leave or both to obtain a greater benefit under the West Virginia Public Employees Retirement System.

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

The Division 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 Division leases from the Department of Administration substantially all of State Office Building No. 5 which is owned by the State Building Commission. The Division may be released from its obligation only at the option of the lessor. The Division is obligated under the operating leases, which expires June 30, 2014 for rental payments of approximately \$2.3 million annually. Management expects the leases to be renewed upon expiration.
- The Division'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, 2013 the Division incurred payroll related expenditures of approximately \$26,811 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$25,698 in employer matching contributions to the State Public Retirement System.

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NOTE 11: COMMITMENTS AND CONTINGENCIES

The amount of unexpended balances of highway design and construction contracts entered into by the Division with various contractors approximated \$698,901 at June 30, 2013.

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

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

Various legal proceedings and claims related to condemnation and eminent domain cases are pending against the Division. At June 30, 2013, there were approximately 426 open cases. These cases involve the acquisitions of properties by the Division for right of way purposes. The Division has paid the applicable courts on behalf of the land grantors, estimated fair values of the properties acquired. The open cases may result in condemnation commissioners or jury verdicts awarding amounts in excess of the previously paid estimated fair value amounts. In these situations, the excess award amount plus a statutory interest rate of 10% would be paid to the grantor. The interest amount would be calculated on the excess award amount from the date of the petition filing to the date of the excess payment amount to the court. Several of these cases relate to condemnations from the 1960s and 1970s. There is no estimate available as to the amount of monies needed to resolve these cases. Management is of the opinion that any liability resulting from these claims would have no adverse effect on the financial position of the Division.

NOTE 12: RETIREMENT PLAN

PLAN DESCRIPTION - The Division contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death, and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 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 18.5% of annual covered payroll, including the Division's contribution of 14.0% which is established by PERS. The Division's contributions to PERS for the years ended June 30, 2013, 2012, and 2011 were \$25,698, \$26,024, and \$22,213, respectively, equal to the required contributions for each year.

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YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

NOTE 13: OTHER-POST EMPLOYMENT BENEFITS

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

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

The OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. The Division's ARC was \$11,324, \$46,792 and \$53,359 and the Division has paid premiums of \$9,993, \$9,441 and \$ 9,116 which represent 88.2%, 20.2% and 17.1% of the ARC, respectively, for the years ending June 30, 2013, 2012, and 2011. At June 30, 2013, the liability related to OPEB costs was \$132,775.

NOTE 14: RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) 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 Division retains the risk of loss on certain tort and contractor claims in excess of the amount insured or covered by BRIM's insurance carrier. Other than the amounts disclosed in Note 9, amounts of settlements have not exceeded insurance coverage in the past three years. The Division has evaluated this potential risk of loss as discussed in Note 9.

Through its participation in the PEIA, the Division has obtained health coverage for its employees. In exchange for payment of premiums to PEIA, the Division 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.

American Zurich Insurance Company provides workers compensation coverage to all West Virginia state agencies. Payments for coverage are made directly to the West Virginia State Insurance Commission who in turn purchases the workers' compensation coverage on behalf of all West Virginia state agencies. Nearly every employer in the state who has a payroll must have coverage.

In exchange for premiums, the Division transfers its risk of loss related to employee injuries to American Zurich Insurance Company.

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

Joint Committee on Government and Finance
West Virginia Legislature
Charleston, West Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the West Virginia Department of Transportation, Division of Highways (the Division) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings and responses, that we consider to be a significant deficiencies (findings 2013-1 and 2013-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

West Virginia Department of Transportation, Division of Highway Response to Findings

The Division's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. The Division's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia
November 18, 2013

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2013

FINDING NUMBER 2013-1

Financial reporting of Capital Assets

- Criteria:** Expenditures for infrastructure assets are required by accounting principles generally accepted in the United States of America to be capitalized in the Government-wide Financial Statements and depreciated over their estimated useful lives.
- Condition:** The Division's process for identifying expenditures for infrastructure assets that meets its established capitalization policy is dependent on several criteria, the type of project and the level of expenditures. We noted the Division does not have an adequate process that reviews the type of project and whether it should be capitalized or expenses or make sure all costs related to a project are capitalized. A similar matter was identified in the prior year.
- Cause:** The Division has not established effective procedures to ensure that the capitalization of expenditures is accurate. A review process is not in place to ensure maintenance projects are not included in WIP or that all WIP expenditures have been captured.
- Effect:** Without proper monitoring, errors in the reported balances for capital assets and expenses in the Division's Government-wide Financial Statements could occur without being detected by management. In 2013, the Division adjusted infrastructure for the following: a reduction in current year work in process expenditures of approximately \$5,604,000 and an increase of approximately \$12,594,000 in current year work in process expenditures. Total work in process expenditures for the year ended were approximately \$423,436,000. The adjustments were made to eliminate projects from work in process that were actually maintenance and repair projects, to work in process expenditures recorded as part of the yearend accumulation of accounts payable that should have been included as capital assets.
- Recommendation:** We recommend that management update procedures to ensure that a review process is established that will capitalize all costs related to a project, and ensure maintenance projects are not capitalized. Establishing the procedures will help to ensure that capitalized expenditures and related depreciation expenses are complete and accurate.
- Management's Response:** *DOT Finance & Administration Division will refine existing procedures and review processes to ensure that only improvement projects are capitalized as work in process. A review of the yearend accumulation of accounts payable will be undertaken to ensure capitalization of all significant expenses associated with infrastructure projects.*

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2013

FINDING NUMBER 2013-2

Information Systems Governance

Criteria: The management of the Division is responsible for establishing and maintaining adequate information systems internal controls. Furthermore, an integral part of an entity's internal control structure is the effective assessment of IT security risks, established policies, and procedures which reflect the current system environment to mitigate those risks. Current and well-defined procedures provide and enhance the IT security posture by lessening the risk of the information system being used inappropriately. Additionally, the enforcement of standards becomes increasingly difficult without policies and procedures in place.

Condition: The Division 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:

- Monitoring over system administrator activity is not documented for REMIS and PTS systems. While the REMIS and PTS systems will be replaced, procedures should be implemented for the Division's new applications. Monitoring system administrator activity decreases the risk of unauthorized activity from going unnoticed.
- Programmers in the Division's Information Services Department have access to production programs in the REMIS system. 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.
- According to WVOT's user account management policy, each agency must have a documented process for periodically reviewing existing user accounts to ensure that access and user account privileges compatible with job function, need-to-know, and employment status. The Division does not currently have a documented process for this review.
- The Division had a vulnerability evaluation conducted in 2010. The report noted several concerns and made recommendations. The Division did not effectively review or address these concerns. The items noted in the 2010 report were similar to the items noted by us.
- Many of the Division's IT policies and procedures have not been updated since the 1980s or are insufficient. The Division has undergone several changes in the last few years including the development of their relationship with the West Virginia Office of Technology (WVOT) and the current installation of new software. Policies and procedures should reflect the current structure of information technology including: required complementary user controls documented in WVOT's SSAE16 report, WVOT policies which require Agency specific policies, and policies to address Division owned applications.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2013

FINDING NUMBER 2013-2 (Continued)

Information Systems Governance

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

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

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

Recommendation: We recommend the following:

- The Division should implement a process to review system administrator activity. Since manual reviews are typically inefficient and susceptible to human error the process should be automated to the fullest extent technically feasible.
- The Division should remove programmer access from production applications and develop policies and procedures regarding programmer access. If this access is necessary, mitigating controls such as monitoring of programmer access and activities within the production application should be performed and documented.
- The Division should establish policies and procedures to create a documented review process of user account management. These policies and procedures should address mainframe access as well as access to Division owned applications.
- The Division should complete a vulnerability assessment of the internal network environment including the related wireless networks. In addition, we recommend that the Division complete a code review on all online/ecommerce applications. Furthermore, we recommend that the Division develop policies and procedures for conducting periodic vulnerability and intrusion testing of the various computer systems maintained by the Division as well as procedures to address recommendations and other IT security concerns.
- The Division should create and establish policies and procedures which reflect the current structure of information technology. While creating these policies and procedures, consideration should be given to required complementary user controls documented in WVOT's SSAE16 report, WVOT policies which require Agency specific policies, and policies to address Division owned applications.

When reviewing WVOT's SSAE16 report, special attention should be given the sections addressing required complementary user controls. WVOT has identified these controls as being vital to achieving some of its own controls objectives. These complementary user controls are the responsibility of the Division to design and implement.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2013

FINDING NUMBER 2013-2 (Continued)

Information Systems Governance

While WVOT has written several policies which are applied state wide, some of these policies require supporting policies written by each agency. The Division should review all policies issued by the Chief Technology Officer and write corresponding Division policies, as required.

Applications which are owned and maintained by the Division require application specific policies and procedures which do not exist for the current system. Since new systems are being implemented, the Division should write policies and procedures for the new applications. Topics which should be addressed include user account management, anti-virus, patch management, change control, system monitoring, incident response, event log management, and compliance with software licensing agreements.

Management
Response:

(1) There will be a policy implemented, requiring each user organization to perform a monthly review of an employee terminations. Information Services will require a monthly response from each user organization that the organization has reviewed and processed the necessary documentation.

(2) Information Services managers have access to productions programs and access to systems. Due to the limited number of employees, it is sometimes difficult to segregate duties. Also, at this time the Department of Transportation is highly involved in a new statewide implementation (wvOASIS). As of January 2012, there was a decision made that systems being terminated due to the implementation of wvOASIS would not be modified. At this time DOT has not modified REMIS or PTS since the January 2012 decision.

(3) The Department of Transportation provides a monthly security report to each of its organizations for review. I agree that Information Services does not monitor the review process. Information Services relies on the organization to review and submit proper documents to terminate user's access. There will be a policy implemented for each user organization to provide a monthly verification. A termination report will also be provided to each organization at the end of each month for verification that employee's access has been terminated.

(4) The Office of Technology provided a Draft Vulnerability Assessment Report in 2010; a Final Report was never submitted to the Department of Transportation. The opportunity to review or address the concerns of the report was never afforded to the DOT.

(5) It is agreed that most of the DOT policies and procedures were written in the 80's when the systems were developed. There has been minor change to the system; policies and procedures should have been updated. At this time, our IT resources are committed to the wvOASIS project implementation; business process policy and procedures will be addressed to support wvOASIS.