

WEST VIRGINIA STATE RAIL AUTHORITY
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA
AND THE WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2013
AND
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Members
West Virginia State Rail Authority
Moorefield, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia State Rail Authority (the Authority), a component unit of 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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable cash flows for the years then ended in conformity 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 Authority 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 and budgetary comparison information on pages 5-10 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 October 22, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.



Charleston, West Virginia
October 22, 2013

The management of the West Virginia State Rail Authority (the Authority) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2013. Please read it in conjunction with the Authority's basic financial statements and notes to the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased by approximately \$826 thousand as a result of this year's operations. This was due to continual capital improvement projects and upgrades to both the South Branch Valley Railroad (SBVR) and the West Virginia Central Railroad (WVCR) funded through legislative appropriation and freight revenues.
- Operating expenses increased by approximately \$970 thousand during the year ended June 30, 2013, and operating revenues decreased by approximately \$412 thousand. This resulted in an operating loss increase of approximately \$1.4 million compared to the year ended June 30, 2012. Operating expenses increased due to expenses incurred for the development of the WV State Rail Plan. Salaries and benefits, car hire, diesel fuel, and liability and property insurance rates are normally the largest operating expenses but rail planning was included in expenses for the year ended June 30, 2013. Freight revenue decreased due to a decrease in freight cars of 200 total cars. Pilgrim's Pride decreased by 310 cars because of the availability of local corn being shipped by trucks. This trend is not expected to continue. Allegheny Wood and Appalachian Railcar were down slightly while Greer Lime showed an increase of 132 revenue cars for the year.
- Non-operating revenues (expenses) were approximately \$3.7 million in the year ended June 30, 2013 compared to non-operating revenues (expenses) of approximately \$2.3 million in the year ended June 30, 2012. The increase in total non-operating revenues (expenses) of approximately \$1.4 million was due to an increase in intergovernmental revenue and federal revenue.
- The Authority completed approximately \$3.1 million in capital improvements in the year ended June 30, 2013, including approximately \$731 thousand for SBVR track, approximately \$191 thousand for SBVR equipment, approximately \$35 thousand for SBVR locomotives, approximately \$1.7 million for WVCR track and approximately \$457 thousand in land purchases.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority's costs are recovered from revenues and how much of the cost is supplemented by appropriations from the State of West Virginia.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED FINANCIAL STATEMENTS

Condensed financial information from the Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2013 and 2012 are as follows:

Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Current assets	\$ 7,126,142	\$ 6,057,849	\$ 1,068,293
Capital assets, net	<u>38,764,065</u>	<u>37,488,489</u>	<u>1,275,576</u>
Total assets	<u>45,890,207</u>	<u>43,546,338</u>	<u>2,343,869</u>
Current liabilities	1,704,105	190,435	1,513,670
Noncurrent liabilities	<u>541,161</u>	<u>536,782</u>	<u>4,379</u>
Total liabilities	<u>2,245,266</u>	<u>727,217</u>	<u>1,518,049</u>
Net position			
Invested in capital assets, net of related debt	38,764,065	37,488,489	1,275,576
Unrestricted	<u>4,880,876</u>	<u>5,330,632</u>	<u>(449,756)</u>
Total net position	<u>\$ 43,644,941</u>	<u>\$ 42,819,121</u>	<u>\$ 825,820</u>

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

Condensed Statement of Revenues, Expenses, and Changes in Net Position

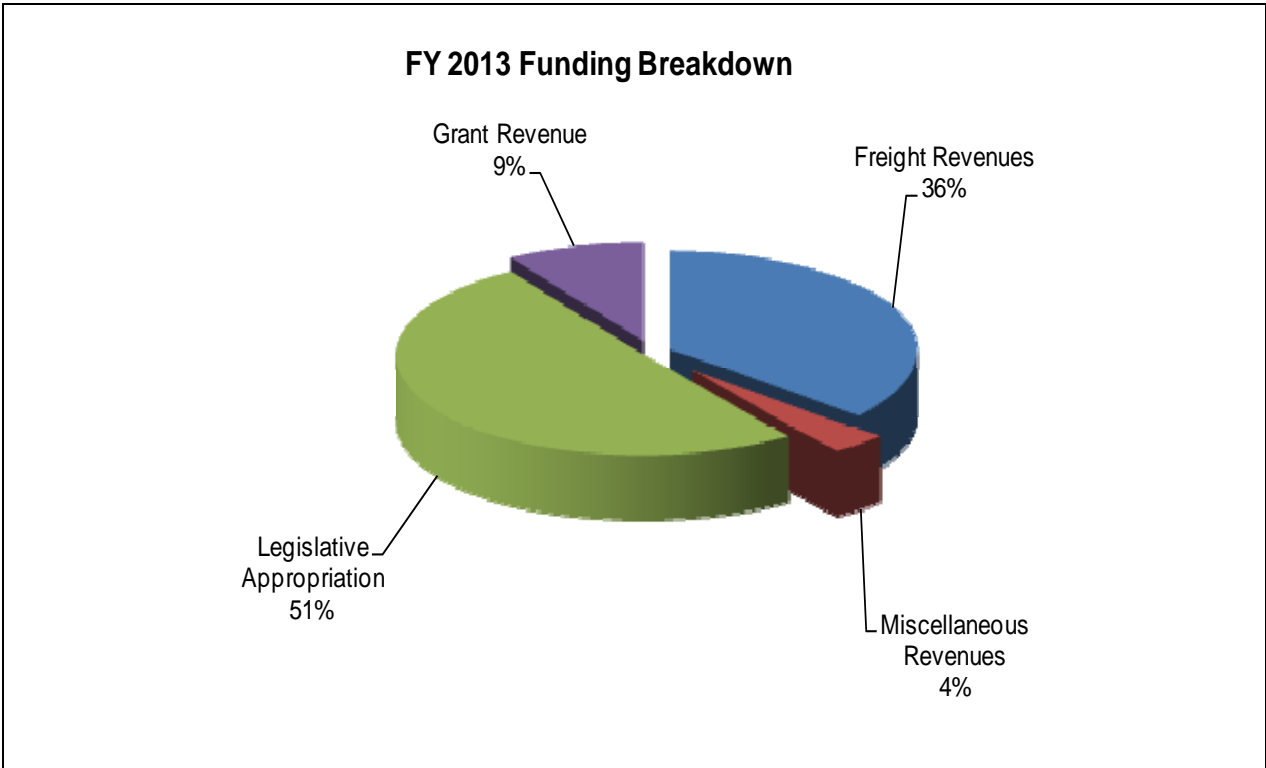
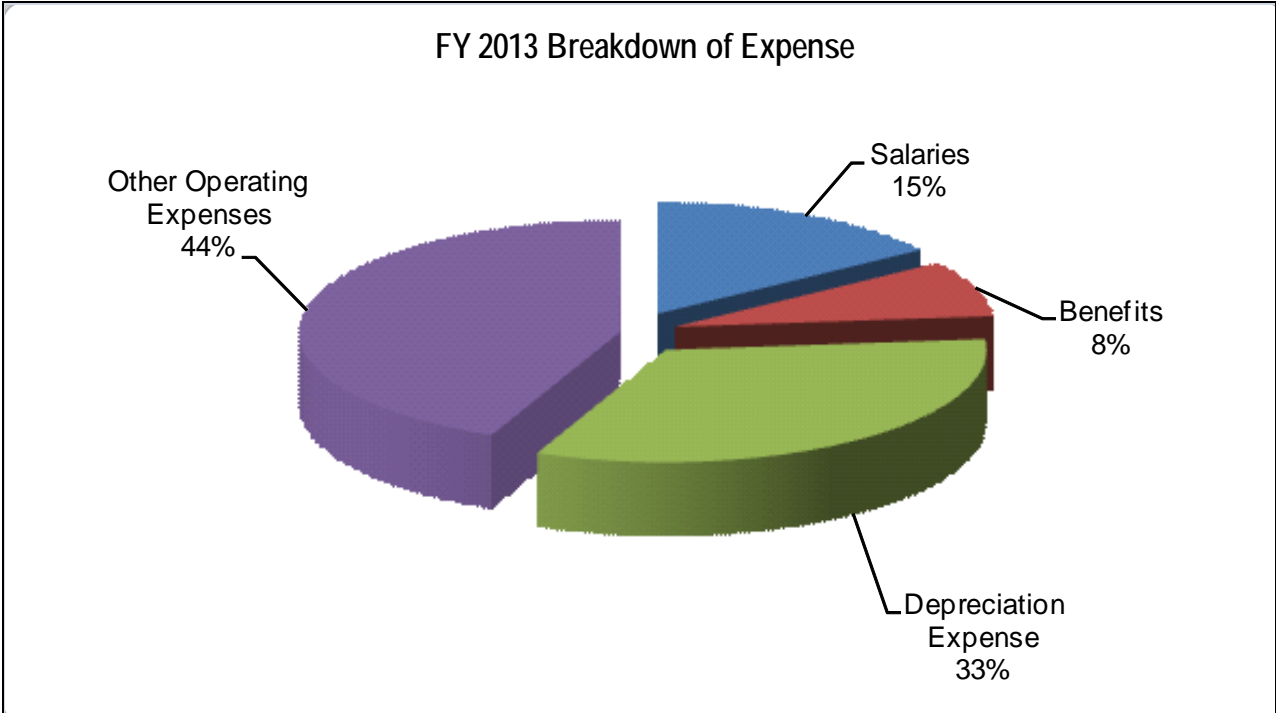
	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Operating revenues			
Freight	\$ 2,269,323	\$ 2,300,674	\$ (31,351)
Miscellaneous	<u>208,542</u>	<u>589,294</u>	<u>(380,752)</u>
Total operating revenues	<u>2,477,865</u>	<u>2,889,968</u>	<u>(412,103)</u>
Depreciation expense	1,773,843	1,692,694	81,149
Other operating expenses	<u>3,590,324</u>	<u>2,701,407</u>	<u>888,917</u>
Total operating expenses	<u>5,364,167</u>	<u>4,394,101</u>	<u>970,066</u>
Operating loss	(2,886,302)	(1,504,133)	(1,382,169)
Non-operating revenues (expenses)	<u>3,712,122</u>	<u>2,300,368</u>	<u>1,411,754</u>
Change in net position	825,820	796,235	29,585
Total net position - beginning	<u>42,819,121</u>	<u>42,022,886</u>	<u>796,235</u>
Total net position - ending	<u>\$ 43,644,941</u>	<u>\$ 42,819,121</u>	<u>\$ 825,820</u>

FINANCIAL ANALYSIS

- The Authority's budget for the fiscal year ended June 30, 2013 consisted of funds received from the State of West Virginia General Fund, operating revenues from SBVR, revenues from the operator of the WVCR, federal drawdowns from an FRA grant and miscellaneous revenues received from the leases and licenses on railroad right-of-ways.
- The Authority received an approximate \$3.2 million appropriation from the general fund of the State of West Virginia for capital improvement projects and maintenance projects on the SBVR and WVCR, upkeep of the Maryland Rail Commuter (MARC) train stations in the eastern panhandle, and the general operation of the Authority. This appropriation is about 51% of the total funds received. Funds will continue to be utilized for capital improvements and maintenance costs on the SBVR and WVCR in order to safely maintain the condition of both railroads. The SRA also earned approximately \$559 thousand from a Federal Railroad Administration grant that was used for the partial payment of the preparation of the WV State Rail Plan.
- Freight revenue of approximately \$2.3 million was earned from the operations of the SBVR, which was in line with the year ended June 30, 2013 budgeted projections. Miscellaneous revenues of approximately \$209 thousand were earned in addition to the freight revenue. The miscellaneous revenue is made up of right-of-way leases on the SBVR and WVCR and income received from the excursion train operators. This revenue is used to help pay the operating expenses of the SBVR. Total operating revenues decreased by approximately 14% in the fiscal year ended June 30, 2013. Miscellaneous revenue decreased by 65% in the fiscal year ended June 30, 2013. This was due revenues received from the sale of scrap surplus that did not occur in 2013.

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

The following graphs provide a visual representation of the funding (revenue and other income sources) and expenditures for the fiscal year ended June 30, 2013.



WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2013 and 2012 amounted to approximately \$38.8 million and approximately \$37.5 million, respectively. This investment in capital assets includes land, buildings, railroad infrastructure, rail cars and equipment.

The Authority primarily acquires its assets with proceeds from the general fund appropriation from the State of West Virginia. Rehabilitation and improvements to the SBVR and WVCR are part of the Authority's capital improvement program.

Capital asset additions for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 457,500	\$ -
Work equipment	190,642	111,769
Locomotive, freight and passenger cars	34,819	62,250
Railroad infrastructure	<u>2,434,869</u>	<u>1,744,974</u>
Total	<u>\$ 3,117,830</u>	<u>\$ 1,918,993</u>

Readers interested in more detailed information regarding capital assets should review the accompanying notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority's year ending June 30, 2014 budget includes approximately \$4.2 million from the State of West Virginia and approximately \$2.5 million from projected freight revenue. This funding will be used to complete capital improvement and rehabilitation projects on the SBVR and WVCR. The funding from the State of West Virginia includes approximately \$687 thousand (50/50) match for a federal grant for the Authority to develop a State Rail Plan and approximately \$1.1 million in appropriated funds for projects underway but not completed in 2013.

The SBVR's track structure has improved significantly over the past twelve years. By establishing a long-term capital improvement program, the Authority has been able to raise the weight restriction on railcars and improve safety of the operation. New locomotives have been added to the fleet to ensure that the SBVR can move traffic in a reliable and timely manner. This is particularly important in handling unit trains for the Pilgrim's Pride feed mill in Moorefield. Pilgrim's Pride is the largest employer in the South Branch Valley, so it is vital that the Authority continue to upgrade the rail infrastructure and maintain the track to promote the economic success of the area it serves. The SBVR capital improvement projects planned for the fiscal year ending June 30, 2014 include continuing to upgrade and repair bridges, replacing cross ties, spreading ballast, surface, weld jointed rail at some locations, upgrading the Moorefield yard tracks and adding an addition to the shop building.

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013

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The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2014 include replacing cross ties, spreading ballast, surface, replacing culverts, and switch tie replacement in the South Elkins yard. This railroad has completed fourteen years of operations and continues to be a strong economic factor to the areas that it serves.

The Authority will continue to maintain commuter facilities at Harpers Ferry, Duffield's, and Martinsburg for the Maryland Rail Commuter (MARC) train service. This offers West Virginia citizens in the eastern panhandle the advantage of using commuter train service to Washington, DC.

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Authority 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 State Rail Authority at 120 Water Plant Drive, Moorefield, West Virginia, 26836.

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current assets	
Cash and cash equivalents	\$ 5,562,158
Trade receivables	56,604
Inventories	46,575
Due from other governmental entities	1,460,501
Other current assets	<u>304</u>
Total current assets	<u>7,126,142</u>
Noncurrent assets	
Capital assets	61,481,532
Accumulated depreciation	<u>(22,717,467)</u>
Total noncurrent assets	<u>38,764,065</u>
Deferred outflows:	
Total deferred outflows	<u>-</u>
Total assets and deferred outflows	<u>45,890,207</u>

LIABILITIES

Current liabilities	
Accounts payable	1,078,123
Accrued expenses	40,337
Compensated absences	51,551
Due to other governmental entities	530,730
Unearned revenue	<u>3,364</u>
Total current liabilities	<u>1,704,105</u>
Noncurrent liabilities	
Other post employment benefit liability	474,590
Unearned revenue	<u>66,571</u>
Total noncurrent liabilities	<u>541,161</u>
Total liabilities	<u>2,245,266</u>
Deferred inflows:	
Total deferred inflows	<u>-</u>
Total liabilities and deferred inflows	<u>2,245,266</u>

NET POSITION

Invested in capital assets, net of related debt	38,764,065
Unrestricted	<u>4,880,876</u>
Total net position	<u>\$ 43,644,941</u>

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

Operating revenues	
Freight	\$ 2,269,323
Miscellaneous	208,542
	2,477,865
Total operating revenues	2,477,865
Depreciation expense	1,773,843
Other operating expenses	3,590,324
	3,590,324
Total operating expenses	5,364,167
Operating income (loss)	(2,886,302)
Nonoperating revenues (expenses)	
Intergovernmental revenue	3,200,765
Interest income	20,966
Grant revenue	558,802
Gain (loss) on disposition of assets	(68,411)
	(68,411)
Total nonoperating revenues (expenses)	3,712,122
Change in net position	825,820
Total net position - beginning	42,819,121
Total net position - ending	\$ 43,644,941

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

Cash flows from operating activities	
Cash received from customers and government	\$ 2,459,872
Cash paid to employees	(672,683)
Cash paid to suppliers and government	<u>(1,408,385)</u>
Net cash provided (used) by operating activities	<u>378,804</u>
Cash flows from noncapital financing activities	
Transfers in from State of West Virginia	<u>1,974,246</u>
Net cash provided (used) by noncapital financing activities	<u>1,974,246</u>
Cash flows from capital and related financing activities	
Federal railroad assistance	360,752
Purchase of capital assets	<u>(3,117,830)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,757,078)</u>
Cash flows from investing activities	
Receipts of interest	<u>20,966</u>
Net cash provided (used) by investing activities	<u>20,966</u>
Increase (decrease) in cash and cash equivalents	(383,062)
Cash and cash equivalents, beginning of year	<u>5,945,220</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,562,158</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating loss	(2,886,302)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	1,773,843
Changes in operating assets and liabilities	
(Increase) decrease in trade receivables	(14,629)
(Increase) decrease in inventories	(14,045)
(Increase) decrease in other current assets	1,888
Increase (decrease) in accounts payable	999,837
Increase (decrease) in accrued expenses	(3,822)
Increase (decrease) in compensated absences	(1,532)
Increase (decrease) in due to other governmental entities	519,187
Increase (decrease) in unearned revenue	(3,364)
Increase (decrease) in OPEB	<u>7,743</u>
Net cash provided (used) by operating activities	<u><u>\$ 378,804</u></u>

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

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NOTE 1 - DESCRIPTION OF ORGANIZATION AND FINANCIAL REPORTING ENTITY

In 1975, the West Virginia Legislature created the West Virginia State Rail Authority (the Authority) under the provisions of Chapter 29, Article 18 of the Code of West Virginia, 1931, as amended, known as the “West Virginia Railroad Maintenance Act.” The Authority was created to participate in the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State of West Virginia and enable it to remain viable in the public sector as a mode of transportation. The Authority maintains the South Branch Valley Railroad and the West Virginia Central Railroad, and is responsible for the rails-to-trails program operation. The Secretary of Transportation serves as a member of the Authority, and the remaining six members are appointed by the Governor.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America define component units as those entities which are legally separate governmental organizations for which the appointed members of the Authority are financially accountable, or other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority’s financial statements to be misleading. Since no such organizations exist which meet the above criteria, the Authority has no component units. The Authority is an enterprise fund and a component unit of the West Virginia Department of Transportation and the State of West Virginia. Accordingly, the Authority’s financial statements are discretely presented in the financial statements of the State of West Virginia.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Authority is considered an enterprise fund and uses the flow of economic resources measurement focus and the accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Enterprise funds are operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation - The Authority prepares its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis - for States and Local Governments*, as amended.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

Cash and Cash Equivalents - For purposes of the statement of net position, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Changes in fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of investment pools and participant-directed accounts, in three of which the Authority may invest. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, West Virginia 25305 or <http://www.wvbt.com>.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

Allowance for Doubtful Accounts - It is the Authority's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectability experienced by the Authority on such balances, and such other factors which, in the Authority's judgment, require consideration in estimating doubtful accounts.

Inventories - Inventories are stated at the lower of cost or market; cost is valued using the weighted average cost method.

Capital Assets - Purchases of capital assets are capitalized at cost and, except for land, which is not depreciated, are depreciated using the straight-line method over the estimated useful lives of the assets ranging from five to forty years. Buildings, railroad infrastructure and land with an initial cost of \$25,000 or more and furniture and equipment with an initial cost of \$5,000 or more are recorded at cost. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Capital assets are reviewed annually for impairment.

Compensated Absences and Other Post-Employment Benefits - Employees fully vest in all earned but unused annual leave, and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Effective July 1, 2007, the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, the Authority was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency ("PEIA"), 601 57th Street, SE, Suite 2, Charleston, WV 25304-2345 or <http://www.wvpeia.com>.

The Authority's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn one and one-half sick leave days for each month of service and are entitled to extend their health insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later are not eligible for these benefits. During 2010, 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. The liability for postemployment health care benefits is now provided for under the multiple employer cost-sharing plan sponsored by the State of West Virginia.

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 Authority 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 Authority did not have any deferred inflows/outflows of resources at June 30, 2013.

Operating Revenues and Expenses - Balances classified as operating revenues and expenses are those which comprise the Authority's ongoing operations. Principal operating revenues are charges to customers for use of the rail lines. Principal operating expenses are the costs of providing the goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position - As required by GASB 34, the Authority displays net position in three components, if applicable: invested in capital assets, net of related debt; restricted; and unrestricted.

Investment in Capital Assets, Net of Related Debt - This component of net position consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position - Restricted net position represents the assets whose use or availability has been restricted, and the restrictions limit the Authority's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed. As of June 30, 2013, there was no restricted net position.

Unrestricted Net Position - Unrestricted net position consists 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 it 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.

Transfers - Transfers represent legally authorized appropriations under West Virginia State Code by the West Virginia Legislature.

Newly Adopted Statements Issued By 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.

NOTE 2 - 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 this statement had no financial impact on the June 30, 2013 financial statements it only 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.

Recent Statements Issued By GASB

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 Authority 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 Authority 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 Authority has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

WEST VIRGINIA STATE RAIL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Authority has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30, 2013:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Cash on deposit with State Treasurer	\$ 55,500	\$ 55,500
Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool)	3,468,113	3,468,113
Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool)	<u>2,038,545</u>	<u>2,038,545</u>
	<u>\$ 5,562,158</u>	<u>\$ 5,562,158</u>

BTI DISCLOSURE INFORMATION

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 Consolidated Fund of the BTI’s Consolidated Fund pools and accounts in which the Authority invest, all are subject to credit risk.

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

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 WV Money Market Pool is subject to credit risk.

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 \$2,495,868,000 of which the Authority's ownership represents .14%.

WV Short Term Bond Pool - Credit Risk

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets	
	Moody's	S&P			
Corporate asset backed securities	Aaa	AAA	\$ 53,681	8.72%	
	Aaa	NR	59,810	9.71	
	NR	AAA	37,411	6.07	
	NR	AA+	2,514	0.41	
	*	Caa1	932	0.15	
	*	Caa3	367	0.06	
	*	Caa3	24	0.00	
	*	Ca	308	0.05	
	*	Ca	95	0.02	
	*	NR	NR	3,819	0.62
	Corporate bonds and notes	Aa2	AA+	3,002	0.49
Aa2		AA	12,731	2.07	
Aa2		AA-	9,192	1.49	
Aa3		AA-	33,034	5.36	
Aa3		A+	11,693	1.90	
A1		AA+	13,295	2.16	
A1		AA	4,118	0.67	
A1		A+	47,500	7.71	
A1		A	13,522	2.19	
A2		A+	9,348	1.52	
A2		A	47,709	7.75	
A2		A-	5,052	0.82	
A3		A-	7,986	1.30	
*		Baa1	A-	2,416	0.39
*		Baa2	A-	6,959	1.13
U.S. agency bonds	Aaa	AA+	9,986	1.62	
U.S. Treasury notes **	Aaa	AA+	140,154	22.76	
U.S. agency mortgage backed securities ***	Aaa	AA+	73,692	11.97	
Money market funds	Aaa	AAAm	5,457	0.89	
			\$ 615,807	100.00%	

NR = Not Rated

* These securities were not in compliance with BTI Investment Policy at June 30, 2013. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

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

At June 30, 2013, the Authority's ownership represents 0.33% of these amounts held by the BTI.

Interest Rate Risk

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

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

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	2013 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
	<u>\$ 2,495,868</u>	52

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

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury notes	\$ 140,154	491
Corporate bonds and notes	227,557	293
Corporate asset backed securities	158,961	471
U.S. agency bonds	9,986	583
U.S. agency mortgage backed securities	73,692	60
Money market funds	5,457	1
	<u>\$ 615,807</u>	358

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.

WEST VIRGINIA STATE RAIL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

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. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 4 - CAPITAL ASSETS

Capital assets balances and the activity for the year ended June 30, 2013 is summarized below:

	June 30, 2012			June 30, 2013
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets				
Land	\$ 4,835,588	\$ 457,500	\$ -	\$ 5,293,088
Land improvements	228,957	-	-	228,957
Buildings and improvements	554,060	-	-	554,060
Office equipment	45,325	-	-	45,325
Work equipment	1,935,640	190,642	-	2,126,282
Locomotives, freight and passenger cars	2,995,311	34,819	-	3,030,130
Railroad infrastructure	<u>47,893,275</u>	<u>2,434,869</u>	<u>124,454</u>	<u>50,203,690</u>
Total capital assets	<u>\$ 58,488,156</u>	<u>\$ 3,117,830</u>	<u>\$ 124,454</u>	<u>\$ 61,481,532</u>
Accumulated depreciation				
Land improvements	\$ 97,195	\$ 16,489	\$ -	\$ 113,684
Buildings and improvements	348,824	13,646	-	362,470
Office equipment	45,271	-	-	45,271
Work equipment	1,174,530	98,797	-	1,273,327
Locomotives, freight and passenger cars	1,319,329	127,728	-	1,447,057
Railroad infrastructure	<u>18,014,518</u>	<u>1,517,183</u>	<u>56,043</u>	<u>19,475,658</u>
Total accumulated depreciation	<u>\$ 20,999,667</u>	<u>\$ 1,773,843</u>	<u>\$ 56,043</u>	<u>\$ 22,717,467</u>

NOTE 5 - RELATED PARTY TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

The Authority 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 Authority'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 Authority incurred payroll related expenditures of approximately \$90 thousand for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$67 thousand in employer matching contributions to the State Public Retirement System. The Authority also paid the West Virginia Department of Highways approximately \$1.5 million for bridge replacement, engineering services, labor and materials. In addition, during the year ended June 30, 2013, the Authority received transfers of \$3,200,765 in appropriated funds. A significant decrease in this revenue or assistance would have a significant effect on the operations of the Authority.

At June 30, 2013, the Authority had amounts due from the State of West Virginia of \$1,262,451. The Office of the Secretary of Administration, Finance Division transferred \$1,938,314 to the Authority for the year ended June 30, 2013.

NOTE 6 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2013, approximately 87.2% of the Authority's freight traffic was attributable to a single customer.

The credit and liquidity crisis in the United States and throughout the global financial system triggered significant events and substantial volatility in world financial markets and the banking system that have had a significant negative impact on foreign and domestic financial markets. If the aforementioned single customer is affected, it could have a significant impact on the future operations of the Authority.

NOTE 7 - RISK MANAGEMENT

The Authority 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) public entity risk pools 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, liability, and property damage in the amount of \$1,000,000 per occurrence. Such coverage may be provided to the Authority by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM. BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the Authority or other participants in BRIM's insurance program. As a result, management does not expect significant differences between the premiums the Authority is currently charged by BRIM and the ultimate cost of that insurance based on the Authority's actual loss experience. Furthermore, there have been no settlements that have exceeded this coverage in the last three years.

Through its participation in the PEIA, the Authority has obtained health, life, and prescription drug coverage for all its employees. The Authority, through a third-party insurer has obtained coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and a third-party insurer, the Authority has transferred its risks related to health, life, prescription drug coverage, and job-related injuries. PEIA issues publicly available financial reports that include financial statements and required supplementary information; these reports 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.

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 Authority transfers its risk of loss related to employee injuries to American Zurich Insurance Company.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Authority participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree postemployment healthcare 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 provisions to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, SE, Suite 2, Charleston, WV 25301-2345 or by calling 1-888-680-7342.

Funding Policy - The Code requires the OPEB Plan bill the participating employers 100% of the annual required contributions (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 Authority's ARC was \$38,893, \$154,113, and \$183,191 and the Authority has paid premiums of \$31,150, \$27,753, and \$36,786, which represent 80.1%, 18.0%, and 20.1% of the ARC, respectively, for the years ended June 30, 2013, 2012, and 2011. At June 30, 2013, the liability related to OPEB costs was \$474,590.

The West Virginia Legislature passed legislation to provide alternate funding sources for the RHBT OPEB unfunded liability. In addition, the PEIA Finance Board imposed limits on the retiree subsidy currently provided for PEIA premiums for retirees. Future increases in the subsidy will be limited to no more than 3% per year. These actions have had a material impact on the amounts billed by the RHBT to the Authority in the current year as well as an expected material impact on amounts billed in the future, resulting in decreases in the recorded OPEB liability.

NOTE 9 - RETIREMENT PLAN

PLAN DESCRIPTION - The Authority 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 benefits provisions to the PERS Board of Trustees. Employees who retire at or after age 60 with five or more years of contributory service or 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, SE, Charleston, WV 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 Authority's contribution of 14.0%, which is established by PERS. Effective July 1, 2013, an increase in the contribution rate of .5%, will increase the Authority's contribution rate to 14.5%. The Authority's contributions to PERS for the years ended June 30, 2013, 2012, and 2011 were \$67,408, \$71,450 and \$64,099, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Periodic Audits

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Authority management believes disallowances, if any, will not have a significant financial impact on the Authority's financial position.

Litigation

Periodically, there are various claims and legal proceedings against the Authority arising from the normal course of business. Currently, there are no pending claims or legal proceedings against the Authority.

ADDITIONAL INFORMATION

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

To the Members
West Virginia State Rail Authority
Moorefield, 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 business-type activities of the West Virginia State Rail Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

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. The 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
October 22, 2013