

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, 2011
AND
INDEPENDENT AUDITORS' REPORT

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Fund Net Assets	12
Statement of Cash Flows	13
Notes to the Financial Statements	14
ADDITIONAL INFORMATION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of the West Virginia State Rail Authority (the Authority), a component unit of the State of West Virginia and the West Virginia Department of Transportation, as of June 30, 2011, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These basic financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 through 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 the 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.

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia
October 19, 2011

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

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, 2011. 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 assets increased by approximately \$903 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 \$85 thousand during the year ended June 30, 2011, and operating revenues increased by approximately \$245 thousand. This resulted in an operating loss decrease of approximately \$160 thousand compared to the year ended June 30, 2010. Operating expenses were higher due to a slight increase in fuel prices. Salaries and benefits, car hire, diesel fuel, and liability and property insurance rates are the largest operating expenses. Miscellaneous revenue increased due to the addition of three large right-of-way agreements executed during the year ended June 30, 2011.
- Non-operating revenues (expenses) were approximately \$2.4 million in the year ended June 30, 2011 compared to non-operating revenues (expenses) of approximately \$2.4 million in the year ended June 30, 2010. The slight change in total non-operating revenues (expenses) of \$51 thousand was due to a slight increase in intergovernmental revenue.
- The Authority completed approximately \$1.8 million in capital improvements in the year ended June 30, 2011, including approximately \$1.2 million for SBVR track, approximately \$100 thousand for SBVR equipment, and approximately \$500 thousand for WVCR track.

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, 2011

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 Assets 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 Fund Net Assets. 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 Assets and Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2011 and 2010 are as follows:

Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>
Current assets	\$ 5,144,705	\$ 4,164,924
Capital assets, net	<u>37,441,493</u>	<u>37,324,123</u>
Total assets	<u>42,586,198</u>	<u>41,489,047</u>
Current liabilities	149,525	98,526
Noncurrent liabilities	<u>413,787</u>	<u>270,746</u>
Total liabilities	<u>563,312</u>	<u>369,272</u>
Net assets		
Invested in capital assets net of related debt	37,441,493	37,324,123
Unrestricted	<u>4,581,393</u>	<u>3,795,652</u>
Total net assets	<u>\$ 42,022,886</u>	<u>\$ 41,119,775</u>

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets

	<u>2011</u>	<u>2010</u>
Operating revenues		
Freight	\$ 2,049,087	\$ 2,085,610
Miscellaneous	<u>468,459</u>	<u>187,045</u>
Total operating revenues	<u>2,517,546</u>	<u>2,272,655</u>
Depreciation expense	1,642,781	1,591,202
Other operating expenses	<u>2,410,260</u>	<u>2,377,147</u>
Total operating expenses	<u>4,053,041</u>	<u>3,968,349</u>
Operating loss	(1,535,495)	(1,695,694)
Non-operating revenues (expenses)	<u>2,438,606</u>	<u>2,387,204</u>
Change in net assets	903,111	691,510
Total net assets - beginning	<u>41,119,775</u>	<u>40,428,265</u>
Total net assets - ending	<u>\$ 42,022,886</u>	<u>\$ 41,119,775</u>

FINANCIAL ANALYSIS

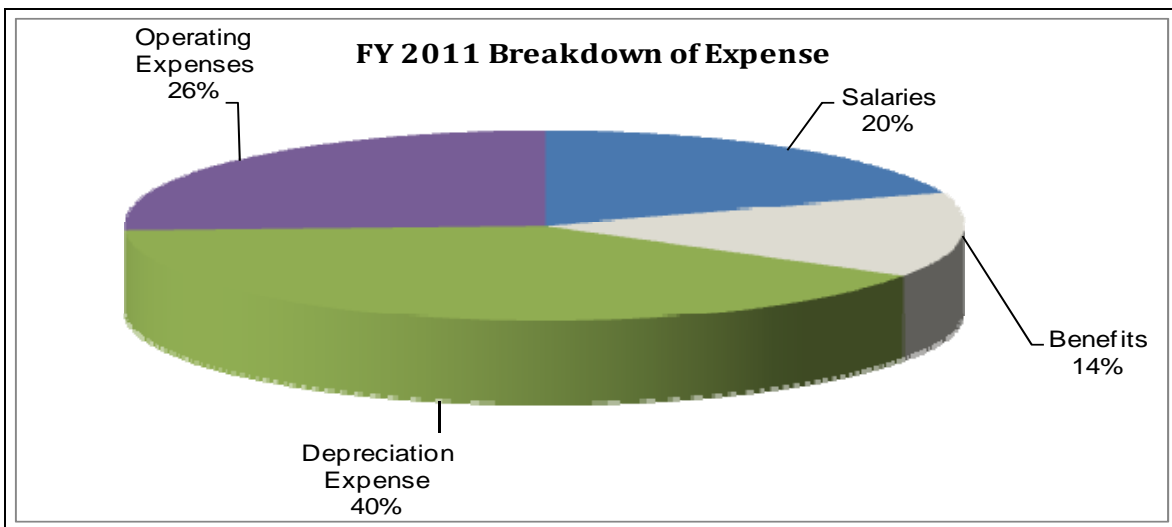
- The Authority's budget for the fiscal year ended June 30, 2011 consisted of funds received from the State of West Virginia General Fund, operating revenues from SBVR, revenues from the operator of the WVCR, and miscellaneous revenues received from the leases and licenses on railroad right-of-ways.
- The Authority received an approximate \$2.5 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 50% 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.

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

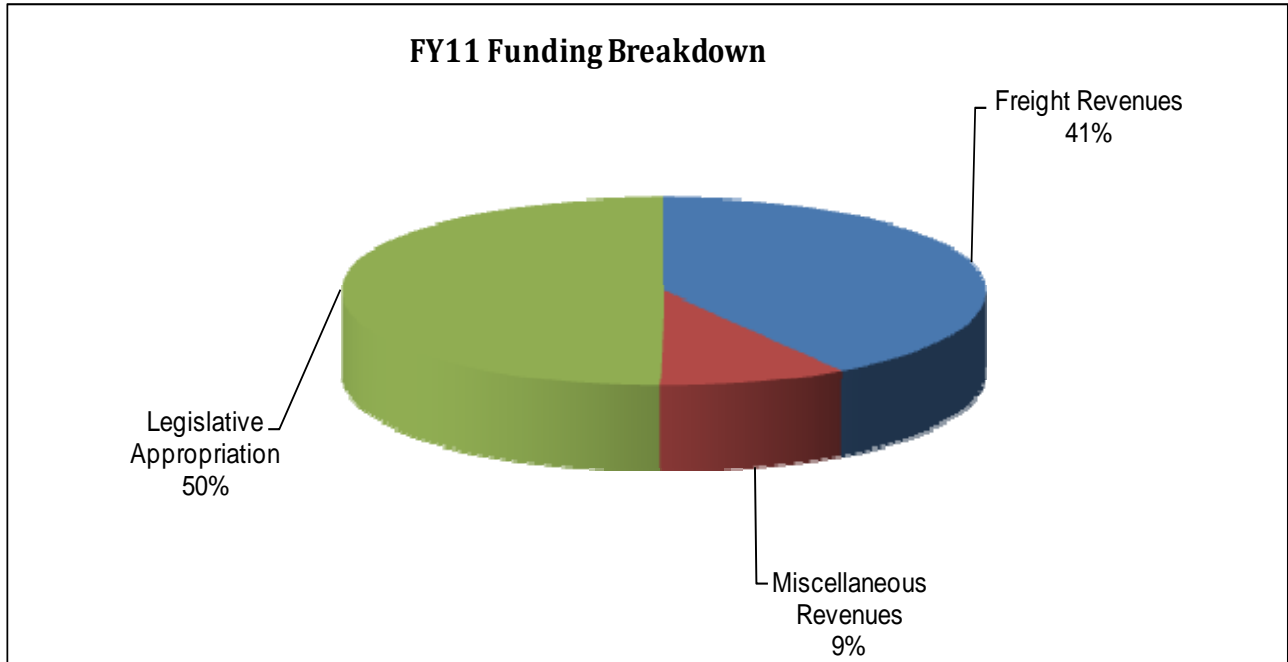
- Freight revenue of approximately \$2.0 million was earned from the operations of the SBVR, which was in line with the year ended June 30, 2011 budgeted projections. Miscellaneous revenues of approximately \$468 thousand were earned in addition to the freight revenue. The miscellaneous revenue is made 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 increased by approximately 11% in the fiscal year ended June 30, 2011.

The following graphs provide a visual representation of the funding (revenue and other income sources) and expenditures for the fiscal year ended June 30, 2011.

Chart 1 - Expenditures Breakdown - Year ended June 30, 2011



WEST VIRGINIA STATE RAIL AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2011



CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2011 and 2010 amounted to \$37.4 million and \$37.3 million, respectively. This investment in capital assets includes land, rail properties, transportation and other equipment, and office buildings 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 investment program.

Capital asset additions included the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Rail properties	\$ 1,748,665	\$ 1,303,375
Transportation and other equipment	<u>91,294</u>	<u>321,251</u>
Total	<u>\$ 1,839,959</u>	<u>\$ 1,624,626</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, 2012 budget includes approximately \$3.8 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 a \$1 million (50/50) match for a federal grant for the Authority to develop a State Rail Plan.

The SBVR's track structure has improved significantly over the past eleven 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, 2012 include continuing to upgrade and repair bridges, replacing cross ties, spreading ballast, and surface.

The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2012 include replacing cross ties, spreading ballast, surface, replacing culverts, and installing a new siding. This railroad has completed twelve 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 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 ASSETS
JUNE 30, 2011

ASSETS

Current assets	
Cash and cash equivalents	\$ 4,979,872
Trade receivables	107,790
Inventories	42,357
Due from other governmental entities	14,414
Other current assets	<u>272</u>
Total current assets	<u>5,144,705</u>
Noncurrent assets	
Capital assets	57,090,203
Accumulated depreciation	<u>(19,648,710)</u>
Total noncurrent assets	<u>37,441,493</u>
Total assets	<u>42,586,198</u>

LIABILITIES

Current liabilities	
Accounts payable	44,065
Accrued expenses	40,824
Compensated absences	51,895
Due to other governmental entities	9,377
Deferred revenue	<u>3,364</u>
Total current liabilities	<u>149,525</u>
Noncurrent liabilities	
Other post employment benefit liability	340,488
Deferred revenue	<u>73,299</u>
Total noncurrent liabilities	<u>413,787</u>
Total liabilities	<u>563,312</u>

NET ASSETS

Invested in capital assets, net of related debt	37,441,493
Unrestricted	<u>4,581,393</u>
Total net assets	<u>\$ 42,022,886</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2011

Operating revenues	
Freight	\$ 2,049,087
Miscellaneous	468,459
	<hr/>
Total operating revenues	2,517,546
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Depreciation expense	1,642,781
Other operating expenses	2,410,260
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Total operating expenses	4,053,041
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Operating income (loss)	(1,535,495)
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Nonoperating revenues (expenses)	
Intergovernmental revenue	2,507,983
Interest income	10,430
Gain (loss) on disposition of assets	(79,807)
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Total nonoperating revenues (expenses)	2,438,606
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Change in net assets	903,111
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Total net assets - beginning	41,119,775
	<hr/>
Total net assets - ending	<u>\$ 42,022,886</u>

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

13

Cash flows from operating activities	
Cash received from customers and government	\$ 2,456,072
Cash paid to employees	(633,455)
Cash paid to suppliers and government	<u>(1,581,791)</u>
Net cash provided (used) by operating activities	<u>240,826</u>
Cash flows from noncapital financing activities	
Transfers in from State of West Virginia	<u>2,493,569</u>
Net cash provided (used) by noncapital financing activities	<u>2,493,569</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(1,839,959)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,839,959)</u>
Cash flows from investing activities	
Receipts of interest	<u>10,430</u>
Net cash provided (used) by investing activities	<u>10,430</u>
Increase (decrease) in cash and cash equivalents	904,866
Cash and cash equivalents, beginning of year including restricted cash	<u>4,075,006</u>
Cash and cash equivalents, end of year including restricted cash	<u>\$ 4,979,872</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating (loss)	\$ (1,535,495)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	1,642,781
Changes in operating assets and liabilities	
(Increase) decrease in trade receivables	(58,110)
(Increase) decrease in inventories	(2,778)
(Increase) decrease in other current assets	388
Increase (decrease) in operating accounts payable	43,426
Increase (decrease) in accrued expenses	(802)
Increase (decrease) in compensated absences	148,382
Increase (decrease) in deferred revenue	(3,364)
Increase (decrease) in due to other governmental entities	<u>6,398</u>
Net cash provided (used) by operating activities	<u>\$ 240,826</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

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 West Virginia Department of Transportation and 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. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

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 assets, 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 multiparticipant 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 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted Net Assets - Restricted net assets are assets whose use or availability has been restricted, and the restrictions limit the 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, 2011, there were no restricted net assets.

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

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

Recent Statements Issued By GASB

The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The Authority has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The Authority has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

WEST VIRGINIA STATE RAIL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and ACIPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Authority has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

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 Authority has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statements No. 53*, effective for fiscal years beginning after June 15, 2011. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or sap counterparty's credit support provider is replaced. The Authority has not yet determined the effect that the adoption of GASB Statement No. 64 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:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool)	\$ 2,976,198	\$ 2,976,198
Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool)	<u>2,003,674</u>	<u>2,003,674</u>
	<u>\$ 4,979,872</u>	<u>\$ 4,979,872</u>

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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.

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 years ended June 30, 2011 and 2010, 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. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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, 2011, the WV Money Market Pool investments had a total carrying value of \$3,018,560,000 of which the Authority’s ownership represents 0.10%.

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 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 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, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating			2011	
	Moody's	S&P		Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA		\$ 87,197	18.40%
	Aaa	NR	*	19,891	4.20
	Aa3	AA+	**	454	0.10
	B1	CCC	**	885	0.19
	B3	B	**	366	0.08
	B3	BBB	**	631	0.13
	Ca	CCC	**	664	0.14
	Caa2	CCC	**	473	0.10
	Caa3	CCC	**	393	0.08
	Caa3	D	**	27	0.01
	NR	* NR	*	4,000	0.84
Total corporate asset backed securities				114,981	24.27
Corporate bonds and notes	Aaa	AA		2,043	0.43
	Aa1	A		4,143	0.87
	Aa2	AA		11,866	2.50
	Aa3	AA		7,064	1.49
	Aa3	A		13,040	2.75
	A1	AA		8,107	1.71
	A1	A		22,731	4.80
	A2	AA		2,555	0.54
	A2	A		23,976	5.06
	A3	A		8,770	1.85
Total corporate bonds and notes				104,295	22.00
Commercial paper	P-1	A-1		15,995	3.38
U.S. agency bonds	Aaa	AAA		20,017	4.22
U.S. Treasury notes ***	Aaa	AAA		25,034	5.28
U.S. agency mortgage backed securities ****	Aaa	AAA		97,296	20.53
Money market funds	Aaa	AAAm		96,287	20.32
Money market funds	Aaa	AAA		-	-
				\$ 473,905	100.00%

* NR = Not Rated

** These securities were not in compliance with BTI Investment Policy at June 30, 2011. 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, 2011 the WV Short Term Bond Pool investments had a total carrying value of \$473,905,000 of which the Authority's ownership represents 0.42%.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	2011	
	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 84,357	1
U.S. Treasury notes	298,345	137
U.S. Treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. agency discount notes	697,164	45
Corporate bonds and notes	127,000	20
U.S. agency bonds and notes	170,788	66
Money market funds	200,279	1
	\$ 3,018,560	46

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	2011	
	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ 25,034	227
Commercial paper	15,995	55
Corporate notes	104,295	234
Corporate asset backed securities	114,981	268
U.S. agency bonds/notes	20,017	85
U.S. agency mortgage backed securities	97,296	18
Money market funds	96,287	
	\$ 473,905	138

NOTE 3 - 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. Securities lending collateral that is reported on the Statement of Fiduciary Net Assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the 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.

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital assets balances and the activity for the year ended June 30, 2011 is summarized below:

	June 30,2010			June 30,2011
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets				
Land	\$ 4,835,588	\$ -	\$ -	\$ 4,835,588
Rail properties	48,289,296	1,748,665	145,916	49,892,045
Transportation and other equipment	1,819,907	91,293	-	1,911,200
Office building and equipment	<u>451,370</u>	<u>-</u>	<u>-</u>	<u>451,370</u>
Total capital assets	<u>\$ 55,396,161</u>	<u>\$ 1,839,958</u>	<u>\$ 145,916</u>	<u>\$ 57,090,203</u>
Accumulated depreciation				
Rail properties	\$ 16,624,088	\$ 1,525,891	\$ 66,109	\$ 18,083,870
Transportation and other equipment	1,101,964	107,816	-	1,209,780
Office building and equipment	<u>345,986</u>	<u>9,074</u>	<u>-</u>	<u>355,060</u>
Total accumulated depreciation	<u>\$ 18,072,038</u>	<u>\$ 1,642,781</u>	<u>\$ 66,109</u>	<u>\$ 19,648,710</u>

NOTE 5 - DUE TO/FROM OTHER GOVERNMENTAL ENTITIES AND TRANSFERS

At June 30, 2011, the Authority had amounts due from the State of West Virginia of \$14,414. The Office of the Secretary of Administration, Finance Division transferred from FIMS fund 0506-099 \$2,337,399 and FIMS fund 0506-913 \$170,584 to the Authority for the year ended June 30, 2011.

NOTE 6 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2011, approximately 93.3% of the Authority's freight traffic was attributable to a single customer. In addition, during the year ended June 30, 2011, the Authority received transfers of \$2,507,983 in appropriated funds. A significant decrease in this revenue or assistance would have a significant effect on the operations of the Authority.

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.

Workers' Compensation

West Virginia had a single private insurance company, BrickStreet Insurance, which provided workers' compensation coverage to all employers in the state. Other private insurance companies began to offer coverage to private-sector employers on July 1, 2009 and will be allowed to begin offering coverage to government employers beginning July 1, 2012. 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 BrickStreet.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

With the adoption of GASB Statement No. 45 for the year ended June 30, 2009, Other Postemployment Benefits (OPEB) costs are accrued based on invoices received from PEIA, which uses actuarially-determined amounts. At June 30, 2011 and 2010, the noncurrent liability related to OPEB costs were \$340,488 and \$194,083, respectively. At June 30, 2011, the total of OPEB expense incurred and the amount of OPEB expense that related to retirees were \$146,405 and \$131,038, respectively. As of the year ended June 30, 2011, there were no retirees receiving these 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 ARC rate is \$903 per employee per month for the year ending June 30, 2011. The Authority's ARC was \$146,405, \$145,642, and \$84,630 and the Authority has paid premiums of \$36,786, \$26,871, and \$26,301, which represent 25.1%, 18.5%, and 31.1% of the ARC, respectively, for the years ending June 30, 2011, 2010, and 2009. At June 30, 2011, the liability related to OPEB costs was \$340,488.

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 17.0% of annual covered payroll, including the Authority's contribution of 12.5%, which is established by PERS. The Authority's contributions to PERS for the years ended June 30, 2011, 2010, and 2009 were \$85,019, \$62,365, and \$67,343, 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



CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited 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, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 19, 2011. 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.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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*.

This report is intended solely for the information and use of management, the Members of the Authority, the Members of the West Virginia Legislature, the West Virginia Department of Transportation, and the West Virginia Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia
October 19, 2011