# 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, 2017

AND

INDEPENDENT AUDITOR'S REPORT

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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.

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***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, 2017, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 10 and the pension schedules and related note on pages 33 - 35 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.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the State of West Virginia and the West Virginia Department of Transportation that is attributable to the transactions of the Authority. They do not purport to, and do not present fairly the financial position of the State of West Virginia and West Virginia Department of Transportation, as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, 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.

Suttle + Stalnaker, PLLC

Charleston, West Virginia
October 10, 2017

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, 2017. 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 $615 thousand as a result of this year's operations. Although several projects completed in FY17 were paid from re-appropriated funds, more projects were completed in FY16 with re-appropriated funds resulting in a decrease in the non-operating revenue (expenses). Many projects planned in FY17 will be completed in FY 18 and the project funds have been re-appropriated.

- Operating expenses decreased by approximately $138 thousand during the year ended June 30, 2017, and operating revenues increased by approximately $770 thousand. This resulted in an operating loss decrease of approximately $908 thousand compared to the year ended June 30, 2016. Salaries and benefits, car hire, diesel fuel, and liability and property insurance rates are normally the largest operating expenses and stayed fairly steady from FY16 to FY17. Freight revenue increased due to handling more cars and an increase in demurrage received from customers. Miscellaneous revenues increased because of an increase in royalties received from gas and oil wells and the receipt of a bonus for a new gas and oil lease.

- Non-operating revenues (expenses) were approximately $2.0 million in the year ended June 30, 2017 compared to non-operating revenues (expenses) of approximately $2.4 million in the year ended June 30, 2016. The decrease in total non-operating revenues (expenses) of approximately $400 thousand was because less re-appropriated funds were spent on projects in FY17 versus re-appropriated funds spent in FY16. However, some projects were still delayed and the funds were re-appropriated to FY18 and these funds will be used on these projects.

- The Authority completed approximately $2.4 million in capital improvements in the year ended June 30, 2017, including $839 thousand for South Branch Valley Railroad (SBVR) bridge deck replacement, grade crossing replacement and installation of a turnout, $21 thousand for SBVR equipment, $631 thousand for locomotive equipment upgrades, $188 thousand for leasehold improvements, and approximately $682 thousand for West Virginia Central Railroad (WVCR) for ties, tunnel repairs and grade crossing replacement.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes management's discussion and analysis report, the independent auditor's 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.

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, 2017 and 2016 are as follows:

### Condensed Statements of Net Position

| | 2017 | 2016 | Variance |
|---|---|---|---|
| Current assets | $ 6,629,320 | $ 7,035,693 | $ (406,373) |
| Capital assets, net | 38,540,416 | 38,174,327 | 366,089 |
| Deferred outflows of resources | 164,700 | 103,704 | 60,996 |
| Total assets plus deferred outflows of resources | 45,334,436 | 45,313,724 | 20,712 |
| | | | |
| Current liabilities | 469,257 | 1,127,698 | (658,441) |
| Noncurrent liabilities | 881,610 | 764,530 | 117,080 |
| Deferred inflows or resources | 28,996 | 81,471 | (52,475) |
| Total liabilities plus deferred inflows of resources | 1,379,863 | 1,973,699 | (593,836) |
| | | | |
| Net position | | | |
| Invested in capital assets, net of related debt | 38,540,416 | 38,174,327 | 366,089 |
| Unrestricted | 5,414,157 | 5,165,698 | 248,459 |
| | | | |
| Total net position | $ 43,954,573 | $ 43,340,025 | $ 614,548 |

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

| | 2017 | 2016 | Variance |
|---|---|---|---|
| Operating revenues | | | |
| Freight | $ 2,001,788 | $ 1,859,855 | $ 141,933 |
| Miscellaneous | 938,308 | 309,932 | 628,376 |
| Total operating revenues | 2,940,096 | 2,169,787 | 770,309 |
| Depreciation expense | 1,996,254 | 1,904,072 | 92,182 |
| Other operating expenses | 2,314,377 | 2,544,312 | (229,935) |
| Total operating expenses | 4,310,631 | 4,448,384 | (137,753) |
| Operating loss | (1,370,535) | (2,278,597) | 908,062 |
| Non-operating revenues (expenses) | 1,985,083 | 2,360,603 | (375,520) |
| Change in net position before other revenues, expenses, gains or losses | 614,548 | 82,006 | 532,542 |
| Donated capital assets | - | 95,000 | (95,000) |
| Change in net position | 614,548 | 177,006 | 437,542 |
| Total net position – beginning | 43,340,025 | 43,163,019 | 177,006 |
| Total net position – ending | $ 43,954,573 | $ 43,340,025 | $ 614,548 |

## FINANCIAL ANALYSIS

- For the year ended June 30, 2017, the Authority's current assets decreased approximately $406 thousand. This decrease is substantially due to a decrease of $247 thousand in the amount due from the State of West Virginia for emergency tunnel repairs incurred near the end of FY16.

- The Authority's capital assets increased approximately $366 thousand which is the net depreciation expense of approximately $2.0 million and capital asset additions of $2.4 million. The $2.4 million capital asset additions for the year ended June 30, 2017 were a result of deferred projects from FY15 and FY16 being completed in FY 17 and work on the Harpers Ferry and WVCR tunnel.

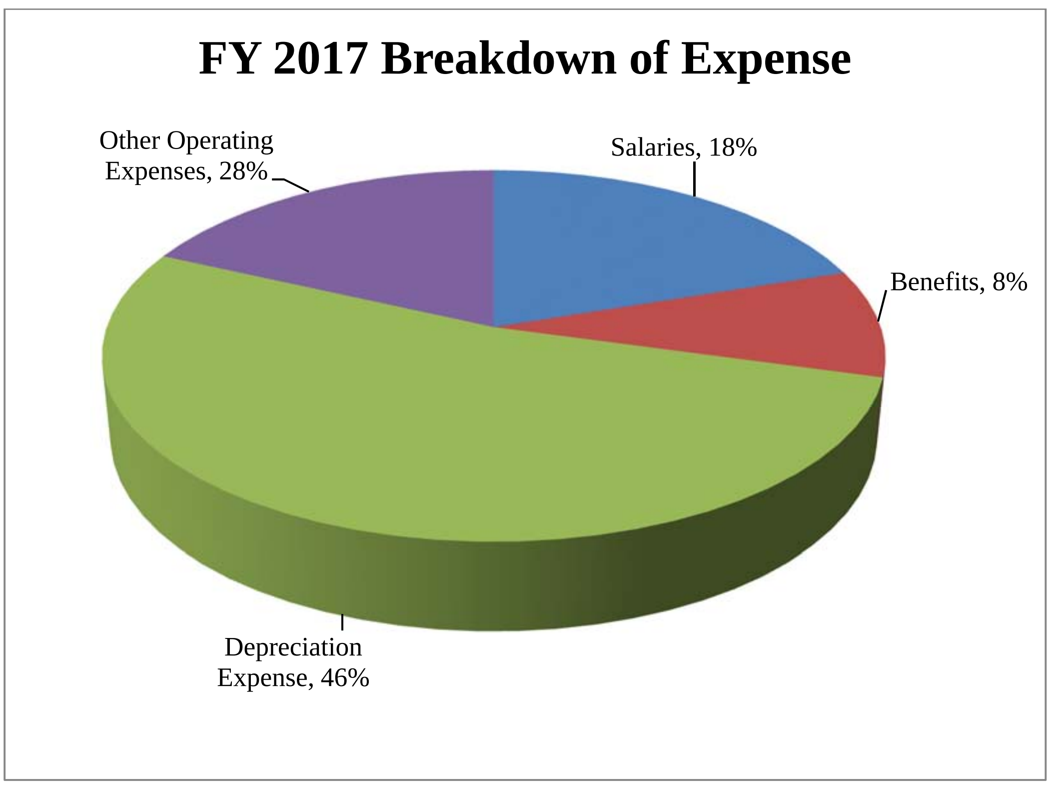
- The Authority's current liabilities decreased approximately $658 thousand due to less funds due to other governmental agencies at the end of FY17.

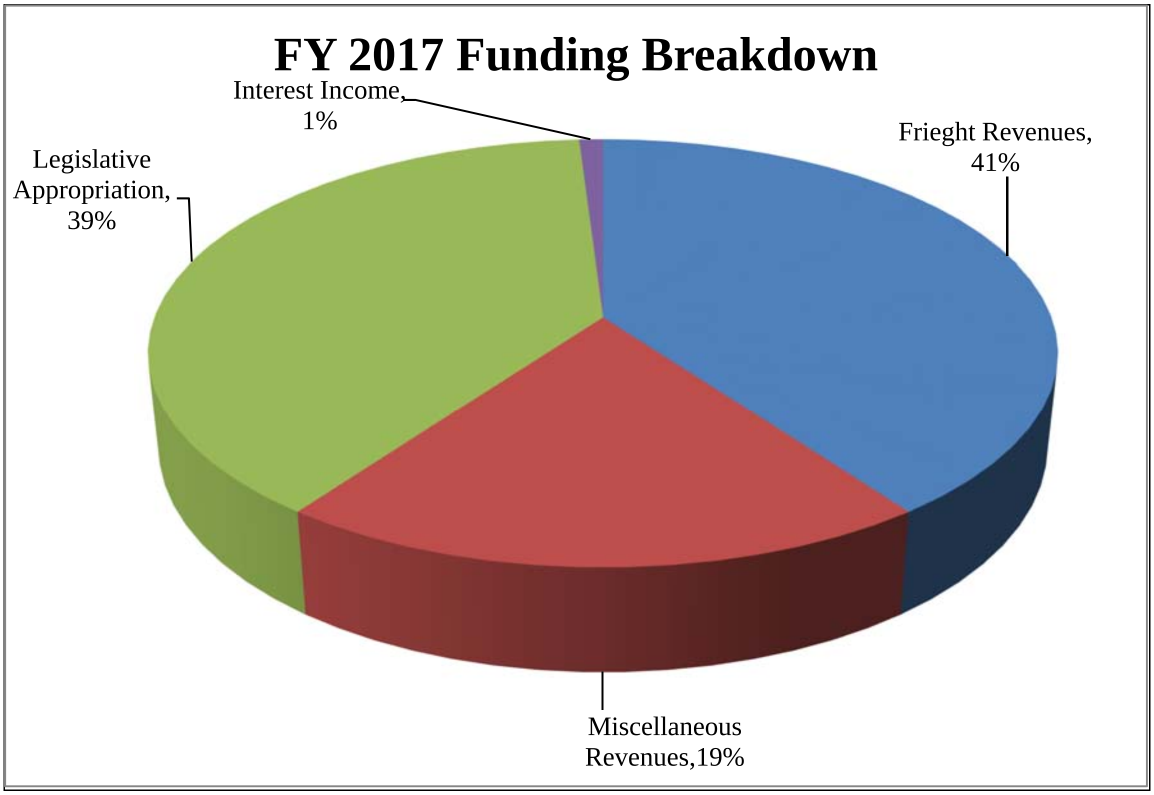
- The Authority's budget for the fiscal year ended June 30, 2017 consisted of funds received from the State of West Virginia General Fund, operating revenues from SBVR, revenues from the operator of the WVCR, and miscellaneous revenues received from the leases and licenses on railroad right-of-ways.

- 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, 2017 budgeted projections. Miscellaneous revenues of approximately $938 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, royalties from gas wells 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 35.5% in the fiscal year ended June 30, 2017. Miscellaneous revenue increase by 202.8% in the fiscal year ended June 30, 2017 due to an increase in oil and gas royalties.

- The Authority received an approximate $1.9 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 39% 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 following graphs provide a visual representation of the funding (revenue and other income sources) and expenditures for the fiscal year ended June 30, 2017.






## CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2017 and 2016 amounted to approximately $38.5 million and approximately $38.2 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, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $ - | $ 95,000 |
| Land Improvements | - | 611,869 |
| Work Equipment | 21,487 | 59,413 |
| Locomotive, freight and passenger cars | 495,000 | 33,944 |
| Railroad infrastructure | 1,521,288 | 1,667,063 |
| Leasehold Improvements | 188,362 | - |
| Construction in progress | 136,206 | 667,463 |
| Total | $ 2,362,343 | $ 3,134,752 |

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, 2018 budget includes approximately $3.0 million from the State of West Virginia and approximately $2.3 million from projected freight and miscellaneous 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 $879 thousand in appropriated funds for projects underway but not completed in 2017. It is anticipated that state revenues will decline in future years impacting allocations to the Authority. The Authority has not yet determined how it will address these potential funding decreases in the future.

The SBVR's track structure has improved significantly over the past fifteen 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, 2017 include continuing to upgrade and repair bridges, finishing the addition of yard tracks for more track capacity, installing a locomotive sanding tower and replacing ties.

The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2018 include replacing cross ties and upgrading bridges This railroad has completed twenty years of operations and continues to be a strong economic factor to the areas that it serves. In addition, the Cass Railroad continues to do well under the oversight of the Authority. This railroad is operated by the same operator of the WVCR. The operator (Durbin & Greenbrier Valley Railroad) and the Authority are partnering to replace the tracks between Durbin and Cass that were washed out in the 1985 flood. To date, 5 miles of track has been reinstalled and the connection is planned for completion in FY19.

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, 2017**

| | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents | $ 6,241,016 |
| Trade receivables | 24,042 |
| Inventories | 19,396 |
| Interest receivable | 5,048 |
| Due from other governmental entities | 339,818 |
| Total current assets | 6,629,320 |
| Noncurrent assets | |
| Capital assets | 68,596,702 |
| Accumulated depreciation | (30,056,286) |
| Total noncurrent assets | 38,540,416 |
| Deferred outflows: | |
| Total deferred outflows | 164,700 |
| Total assets and deferred outflows | 45,334,436 |
| **LIABILITIES** | |
| Current liabilities | |
| Accounts payable | 31,133 |
| Accrued expenses | 43,222 |
| Compensated absences | 60,341 |
| Due to other governmental entities | 331,197 |
| Unearned revenue | 3,364 |
| Total current liabilities | 469,257 |
| Noncurrent liabilities | |
| Other post employment benefit liability | 542,336 |
| Net pension liability | 286,159 |
| Unearned revenue | 53,115 |
| Total noncurrent liabilities | 881,610 |
| Total liabilities | 1,350,867 |
| Deferred inflows: | |
| Total deferred inflows | 28,996 |
| Total liabilities and deferred inflows | 1,379,863 |
| **NET POSITION** | |
| Net investment in capital assets | 38,540,416 |
| Unrestricted | 5,414,157 |
| Total net position | $ 43,954,573 |

The Accompanying Notes Are An Integral Part Of These Financial Statements

**WEST VIRGINIA STATE RAIL AUTHORITY**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**YEAR ENDED JUNE 30, 2017**

| | | |
|---|---|---|
| Operating revenues | | |
| Freight | $ | 2,001,788 |
| Miscellaneous | | 938,308 |
| Total operating revenues | | 2,940,096 |
| Depreciation expense | | 1,996,254 |
| Other operating expenses | | 2,314,377 |
| Total operating expenses | | 4,310,631 |
| Operating income (loss) | | (1,370,535) |
| Nonoperating revenues (expenses) | | |
| Intergovernmental revenue | | 1,926,164 |
| Interest income | | 58,919 |
| Total nonoperating revenues (expenses) | | 1,985,083 |
| Change in net position | | 614,548 |
| Total net position - beginning, | | 43,340,025 |
| Total net position - ending | $ | 43,954,573 |

**WEST VIRGINIA STATE RAIL AUTHORITY**
**STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2016**

| | |
|---|---|
| Cash flows from operating activities | |
| Cash received from customers and government | $ 2,939,923 |
| Cash paid to employees | (752,841) |
| Cash paid to suppliers and government | (2,201,057) |
| Net cash provided (used) by operating activities | (13,975) |
| Cash flows from noncapital financing activities | |
| Transfers in from State of West Virginia | 2,172,875 |
| Net cash provided (used) by noncapital financing activities | 2,172,875 |
| Cash flows from capital and related financing activities | |
| Purchase of capital assets | (2,362,343) |
| Net cash provided (used) by capital and related financing activities | (2,362,343) |
| Cash flows from investing activities | |
| Receipts of interest | 58,919 |
| Net cash provided (used) by investing activities | 58,919 |
| Increase (decrease) in cash and cash equivalents | (144,524) |
| Cash and cash equivalents, beginning of year | 6,385,540 |
| Cash and cash equivalents, end of year | $ 6,241,016 |
| Reconciliation of operating income to net cash provided (used) by operating activities | |
| Operating loss | $ (1,370,535) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities | |
| Depreciation | 1,996,254 |
| Changes in operating assets and liabilities | |
| (Increase) decrease in trade receivables | 3,191 |
| (Increase) decrease in inventories | 7,247 |
| (Increase) decrease in interest receivable | 4,700 |
| (Increase) decrease in deferred outflows | (60,996) |
| Increase (decrease) in accounts payable | (361,133) |
| Increase (decrease) in accrued expenses | 4,023 |
| Increase (decrease) in compensated absences | 645 |
| Increase (decrease) in due to other governmental entities | (301,976) |
| Increase (decrease) in unearned revenue | (3,364) |
| Increase (decrease) in other post employment benefits | 11,110 |
| Increase (decrease) in net pension liability | 109,334 |
| Increase (decrease) in deferred inflows | (52,475) |
| Net cash provided (used) by operating activities | $ (13,975) |

## 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

<u>Basis of Accounting</u> - 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.

<u>Financial Statement Presentation</u> - 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.

<u>Use of Estimates</u> - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.wvbti.com.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As of June 30, 2017, management feels that all receivables will be collected; therefore, no allowance for doubtful accounts has been booked.

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 railroad infrastructure with an initial cost of $100,000 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Outflow of Resources - A deferred outflow of resources is a consumption of net position by the Authority that is applicable to a future reporting period.

Deferred Inflow of Resources - A deferred inflow of resources is an acquisition of net position by the Authority that is applicable to a future reporting period.

Net Pension Liability - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 Position - The Authority displays net position in three components, if applicable: net investment in capital assets; restricted; and unrestricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Investment in Capital Assets - 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, 2017, 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 "net investment in capital assets." 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 Authority implemented Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption of GASB Statement No. 74 had no impact on the June 30, 2017 financial statements.

The Authority implemented Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The adoption of GASB Statement No. 77 had no impact on the June 30, 2017 financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority implemented Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14,* effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of GASB Statement No. 80 had no impact on the June 30, 2017 financial statements.

The Authority implemented Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of GASB Statement No. 81 had no impact on the June 30, 2017 financial statements.

The Authority implemented Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The adoption of GASB Statement No. 86 had no impact on the June 30, 2017 financial statements.

<u>Recent Statements Issued By GASB</u> - The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The Authority has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The Authority has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The Authority has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The Authority has not yet determined the effect that the adoption of GASB Statement No. 87 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, 2017:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Cash on deposit with State Treasurer | $ 24,094 | $ 24,094 |
| Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool) | 4,087,687 | 4,087,687 |
| Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool) | 2,129,235 | 2,129,235 |
| | $ 6,241,016 | $ 6,241,016 |

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

**BTI DISCLOSURE INFORMATION - (In Thousands)**

**Investments and Deposits**

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.

**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, 2017, 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 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 pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. As of June 30, 2017, the WV Money Market Pool investment had a total carrying value of $1,782,953 of which the Authority's ownership represents .23%.

**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 BBB- or higher by Standard & Poor's (or its equivalent). Commercial paper must be rated at least A-1 by Standard & 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. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

## NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

| | Credit Rating | | | |
|---|---|---|---|---|
| Security Type | Moody's | S&P | Carrying Value | Percent of Pool Assets |
| Commercial paper | P-1 | A-1+ | $ 9,963 | 1.32% |
| | P-1 | A-1 | 13,940 | 1.85 |
| Corporate asset backed securities | Aaa | AAA | 68,441 | 9.06 |
| | Aaa | NR | 79,853 | 10.58 |
| | NR | AAA | 67,375 | 8.92 |
| | NR | AA | 2,003 | 0.26 |
| Corporate bonds and notes | Aaa | AA+ | 2,935 | 0.39 |
| | Aaa | AA+ | 4,019 | 0.53 |
| | Aa1 | AA+ | 5,027 | 0.67 |
| | Aa2 | AA+ | 4,036 | 0.53 |
| | Aa2 | AA | 6,989 | 0.93 |
| | Aa2 | AA- | 17,124 | 2.27 |
| | Aa3 | AA- | 15,106 | 2.00 |
| | Aa2 | A | 4,011 | 0.53 |
| | Aa3 | A+ | 1,104 | 0.15 |
| | A1 | AA- | 16,588 | 2.20 |
| | A1 | A+ | 19,078 | 2.53 |
| | A1 | A | 6,355 | 0.84 |
| | A1 | A- | 7,276 | 0.96 |
| | A2 | A+ | 2,616 | 0.35 |
| | A2 | A | 25,032 | 3.32 |
| | A2 | A- | 10,079 | 1.33 |
| | A3 | A | 10,747 | 1.42 |
| | A3 | A- | 30,242 | 4.01 |
| | A3 | BBB+ | 20,183 | 2.67 |
| | Baa1 | A | 1,501 | 0.20 |
| | Baa1 | A- | 11,991 | 1.59 |
| | Baa1 | BBB+ | 47,392 | 6.28 |
| | Baa1 | BBB | 8,495 | 1.12 |
| | Baa2 | A- | 1,018 | 0.13 |
| | Baa2 | BBB | 28,770 | 3.81 |
| | Baa2 | BBB- | 3,000 | 0.40 |
| | Baa2 | NR | 2,000 | 0.26 |
| | Baa2 | BBB+ | 10,268 | 1.36 |
| | Baa3 | BBB | 15,627 | 2.07 |
| | Baa3 | BBB- | 7,166 | 0.95 |
| | Ba1 | BBB | 2,005 | 0.27 |
| | Ba1 | BBB- | 2,304 | 0.31 |
| | Ba2 | BBB- | 824 | 0.11 |
| | NR | BBB+ | 2,637 | 0.35 |
| | NR | BBB- | 1,990 | 0.26 |
| U.S. agency mortgage backed securities | Aaa | AA+ | 37,287 | 4.94 |
| Corporate mortgage backed securities | Aaa | AAA | 4,217 | 0.56 |
| | Aaa | NR | 17,281 | 2.29 |
| U.S. Treasury notes * | Aaa | AA+ | 87,588 | 11.60 |
| Money market funds | Aaa | AAAm | 11,479 | 1.52 |
| | | | $ 754,962 | 100.00% |

NR = Not Rated

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

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

At June 30, 2017, the Authority's ownership represents .28% of 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.

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

| Security Type | Carrying Value (In Thousands) | WAM (Days) |
|---|---|---|
| Repurchase agreements | $ 110,800 | 3 |
| U.S. Treasury notes | 97,823 | 44 |
| U.S. Treasury bills | 69,837 | 88 |
| Commercial paper | 1,064,527 | 36 |
| Certificates of deposit | 330,476 | 41 |
| Corporate bonds and notes | 9,485 | 79 |
| Money market funds | 100,005 | 3 |
| | $ 1,782,953 | 36 |

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) |
|---|---|---|
| Corporate bonds and notes | $ 355,535 | 412 |
| Corporate asset backed securities | 217,672 | 423 |
| Commercial paper | 23,903 | 113 |
| U.S. Treasury bonds and notes | 87,588 | 766 |
| U.S. agency mortgage backed securities | 37,287 | 148 |
| Corporate mortgage backed securities | 21,498 | 347 |
| Money market funds | 11,479 | 1 |
| | $ 754,962 | 426 |

NOTE 3 - CASH INVESTMENTS 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.

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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

**Deposits**

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. 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, 2017 is summarized below:

| | June 30, 2016 Balance | Additions | Deletions | June 30, 2017 Balance |
|---|---|---|---|---|
| Capital assets | | | | |
| Land | $ 5,565,216 | $ - | $ - | $ 5,565,216 |
| Land improvements | 840,826 | - | - | 840,826 |
| Buildings and improvements | 554,060 | - | - | 554,060 |
| Office equipment | 45,325 | - | - | 45,325 |
| Work equipment | 2,116,551 | 21,487 | - | 2,138,038 |
| Locomotives, freight and passenger cars | 3,109,373 | 495,000 | - | 3,604,373 |
| Railroad infrastructure | 53,335,545 | 1,521,288 | - | 54,856,833 |
| Leasehold Improvements | - | 538,012 | - | 538,012 |
| Construction in progress | 667,463 | 1,845,855 | 2,059,299 | 454,019 |
| Total capital assets | $ 66,234,359 | $ 4,421,642 | $ 2,059,299 | $ 68,596,702 |
| | | | | |
| Accumulated depreciation | | | | |
| Land improvements | $ 141,411 | $ 46,410 | $ - | $ 187,821 |
| Buildings and improvements | 403,407 | 13,645 | - | 417,052 |
| Office equipment | 45,271 | 54 | - | 45,325 |
| Work equipment | 1,449,624 | 78,563 | - | 1,528,187 |
| Locomotives, freight and passenger cars | 1,842,395 | 132,009 | - | 1,974,404 |
| Railroad infrastructure | 24,177,924 | 1,716,606 | - | 25,894,530 |
| Leasehold Improvements | - | 8,967 | - | 8,967 |
| Total accumulated depreciation | $ 28,060,032 | $ 1,996,254 | $ - | $ 30,056,286 |

## 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, 2017, the Authority incurred payroll related expenditures of approximately $68 thousand for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $51 thousand in employer matching contributions to the State Public Retirement System. The Authority also paid the West Virginia Department of Highways approximately $1.0 million for bridge inspections, engineering services, labor and materials, and the WVCR Tunnel Repair. In addition, during the year ended June 30, 2017, the Authority received transfers of $1,926,164 in appropriated funds. A substantial decrease in this revenue or assistance would have a significant effect on the operations of the Authority.

At June 30, 2017, the Authority had amounts due from the State of West Virginia of $339,818. The Office of the Secretary of Administration, Finance Division transferred $1,591,838 to the Authority for the year ended June 30, 2017.

## NOTE 6 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2017, approximately 95% 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 West Virginia 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 PEIA, the Authority has obtained health, life, and prescription drug coverage for all 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.

The Authority has obtained coverage for job related injuries through the purchase of a worker's compensation insurance policy from American Zurich Insurance Company. 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 (PEIA). 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 PEIA Board of Trustees. The PEIA 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 $39,489, $51,213, and $57,382 and the Authority has paid premiums of $28,379, $26,237, and $31,736, which represent 71.9%, 51.2%, and 55.0% of the ARC, respectively, for the years ended June 30, 2017, 2016, and 2015. At June 30, 2017, the liability related to OPEB costs was $542,336.

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. PERS also provides delayed retirement, early retirement, death and disability benefits. 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.

NOTE 9 - RETIREMENT PLAN (Continued)

Benefits Provided - Benefits are provided through PERS using a two-tiered system. Effective July 1, 2015, PERS implemented the second tier, Tier II. Employees hired, for the first time, on or after July 1, 2015 are considered Tier II members. Tier I and Tier II members are subject to different regulations.

Tier I: Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80 years or greater, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee’s final average salary multiplied by years of service. Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Tier II: Employees who retire at or after age 62 with ten or more years of credited service are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee’s final average salary multiplied by years of service. Final average salary is the average of the highest annual compensation received by an employee during any period of five consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer. Terminated members with at least ten years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 64.

Contributions - While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 12.0%, 13.5%, and 14.0% for the years ended June 30, 2017, 2016, and 2015, respectively. Effective July 1, 2017, a decrease in the contribution rate of 1.0%, will decrease the Authority’s contribution rate to 11.0%. The employee contribution rate is 4.5% and 6.0% for Tier I and Tier II employees, respectively. The Authority’s contribution to the Plan, excluding the employee’s contribution paid by the Authority, approximated $51,041, $67,545, and $59,811 for the fiscal years ended June 30, 2017, 2016, and 2015, respectively.

NOTE 9 - RETIREMENT PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Authority reported a liability of $286,159 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Authority's proportionate share was 0.03%, which was consistent with its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the Authority recognized pension expense of $37,213. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ 89,822 | $ - |
| Differences between expected and actual experience | 23,837 | - |
| Changes of assumptions | - | 13,926 |
| Changes in proportion and differences between Authority contributions and proportionate share of contributions | - | 15,070 |
| Authority contributions subsequent to the measurement date | 51,041 | - |
| Total | $ 164,700 | $ 28,996 |

The amount reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|---|---|
| 2018 | $ 6,289 |
| 2019 | 14,862 |
| 2020 | 35,758 |
| 2021 | 27,754 |
| | $ 84,663 |

NOTE 9 - RETIREMENT PLAN (Continued)

Actuarial assumptions and methods - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---|---|
| Inflation | 3.0% |
| Salary increases | 3.0 – 6.0%, average, including inflation |
| Investment rate of return | 7.5%, net of pension plan investment expense |

Mortality rates were based on 110% of RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant, Scale AA for healthy females, 96% of RP-2000 Disabled Annuitant Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

Long-term expected rates of return

The long-term rates of return on pension plan investments were determined using a building-block method in which estimates of expected real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Core Fixed Income | 7.5% | 2.7% |
| High Yield Fixed Income | 7.5% | 5.5% |
| Domestic Equity | 27.5% | 7.0% |
| International Equity | 27.5% | 7.7% |
| Real Estate | 10.0% | 5.6% |
| Private Equity | 10.0% | 9.4% |
| Hedge Funds | 10.0% | 4.7% |
| Total | 100.0% | |

NOTE 9 - RETIREMENT PLAN (Continued)

Discount rate - The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from employers will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate - The following table presents the Authority's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| | | Total Net Pension Liability | |
|---|---|---|---|
| | 1% Decrease 6.5% | Discount Rate 7.5% | 1% Increase 8.5% |
| PERS | $ 517,410 | $ 286,159 | $ 89,170 |

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report available at the Consolidated Public Retirement Board's website at www.wvretirement.com.

NOTE 10 - NONCURRENT LIABILITIES

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2017:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| OPEB liability | $ 531,226 | $ 39,488 | $ (28,378) | $ 542,336 | $ - |
| Net pension liability | 176,825 | 109,334 | - | 286,159 | - |
| Total noncurrent liabilities | $ 708,051 | $ 148,822 | $ (28,378) | $ 828,495 | $ - |

## NOTE 11 - 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.

**WEST VIRGINIA STATE RAIL AUTHORITY**
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**June 30, 2017**

**Public Employees Retirement System**
Last 10 Fiscal Years*

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Authority's proportion of the net pension liability (asset) (percentage) | 0.03% | 0.03% | 0.03% | 0.04% | | | | | | |
| Authority's proportionate share of the net pension liability (asset) | $ 286,159 | $ 176,825 | $ 119,170 | $ 327,949 | | | | | | |
| Authority's covered-employee payroll | $ 500,333 | $ 427,221 | $ 432,393 | $ 481,486 | | | | | | |
| Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 57.19% | 41.39% | 27.56% | 68.11% | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 86.11% | 91.29% | 93.98% | 79.70% | | | | | | |

* - The amounts presented for each fiscal year were determined as of June 30th of the previous year. (Measure date)
This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**WEST VIRGINIA STATE RAIL AUTHORITY**
**SCHEDULE OF PENSION CONTRIBUTIONS**
**June 30, 2017**

**Public Employees Retirement System**
Last 10 Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 51,041 | $ 67,545 | $ 59,811 | $ 62,697 | $ 67,408 | $ 71,450 | $ 85,019 | $ 62,365 | $ 67,343 | $ 66,589 |
| Contributions in relation to the contractually required contribution | (51,041) | (67,545) | (59,811) | (62,697) | (67,408) | (71,450) | (85,019) | (62,365) | (67,343) | (66,589) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Authority's covered-employee payroll | $ 425,342 | $ 500,333 | $ 427,221 | $ 432,393 | $ 481,486 | $ 492,759 | $ 680,152 | $ 566,955 | $ 641,362 | $ 634,181 |
| Contributions as a percentage of covered-employee payroll | 12.00% | 13.50% | 14.00% | 14.50% | 14.00% | 14.50% | 12.50% | 11.00% | 10.50% | 10.50% |

Amounts reported during the year ended June 30, 2017 reflect an assumed inflation rate of 3.0% rather than an assumed rate of 1.9% that was used in the prior year.

There were no other factors that affected trends in the amounts reported. If necessary, additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2016.

ADDITIONAL INFORMATION

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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 West Virginia State Rail Authority (the Authority), a component unit of the State of West Virginia and West Virginia Department of Transportation, as of and for the year ended June 30, 2017, 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 10, 2017.

**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 (internal control) 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 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.

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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*.

**Purpose of this Report**

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

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 10, 2017