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, 2015

AND

INDEPENDENT AUDITOR'S REPORT

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Suttle & Stalnaker PLLC
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, 2015, 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, 2015, 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.

Change in Accounting Principle

As described in Note 3 to the financial statements, in 2015, the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 10 and the pension schedules on pages 35 - 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, 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
December 7, 2015

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, 2015. 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 $276 thousand as a result of this year's operations. This was due to more projects being accomplished in FY15 because of projects that were delayed in FY14. Even though projects increased, funds from FY15 have been re-appropriated to FY16 to complete other projects that were not completed.

- Operating expenses decreased by approximately $235 thousand during the year ended June 30, 2015, and operating revenues increased by approximately $643 thousand. This resulted in an operating loss decrease of approximately $878 thousand compared to the year ended June 30, 2014. Salaries and benefits, car hire, diesel fuel, and liability and property insurance rates are normally the largest operating expenses and stayed fairly steady from FY14 to FY15. However, in FY15 there was no rail planning expense as there was in FY14 thus reducing the operating expenses. Freight revenue increased slightly due to an increase in freight cars handled. Most of the freight revenue increase was a slight rebound in the number of corn cars handled. Miscellaneous revenues also increased because of additional royalties received from gas and oil wells.

- Non-operating revenues (expenses) were approximately $2.2 million in the year ended June 30, 2015 compared to non-operating revenues (expenses) of approximately $1.8 million in the year ended June 30, 2014. The increase in total non-operating revenues (expenses) of approximately $421 thousand was because some capital improvement projects not completed in the previous year were carried over to FY15. However, some projects were still delayed and the funds were re-appropriated to FY16 and these funds will be used on these projects.

- The Authority completed approximately $1.2 million in capital improvements in the year ended June 30, 2015, including approximately $685 thousand for South Branch Valley Railroad (SBVR) bridge decks and bridge with box culvert replacement. Approximately $16 thousand for SBVR equipment, $45 thousand for locomotive equipment upgrades, approximately $300 thousand for West Virginia Central Railroad (WVCR) emergency tunnel repair and approximately $112 thousand in capital land increases.

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, 2015 and 2014 are as follows:

Condensed Statements of Net Position

	2015	2014	Variance
Current assets	$ 7,665,752	$ 5,810,715	$ 1,855,037
Capital assets, net	37,111,624	37,925,240	(813,616)
Deferred outflows of resources	59,811	-	59,811
Total assets plus deferred outflows of resources	44,837,187	43,735,955	1,101,232
Current liabilities	837,115	305,047	532,068
Noncurrent liabilities	685,268	543,811	141,457
Deferred inflows or resources	151,785	-	151,785
Total liabilities plus deferred inflows of resources	1,674,168	848,858	825,310
Net position			
Invested in capital assets, net of related debt	37,111,624	37,925,240	(813,616)
Unrestricted	6,051,395	4,961,857	1,089,538
Total net position	$ 43,163,019	$ 42,887,097	$ 275,922

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

	2015	2014	Variance
Operating revenues			
Freight	$ 1,967,952	$ 1,928,600	$ 39,352
Miscellaneous	820,352	216,623	603,729
Total operating revenues	2,788,304	2,145,223	643,081
Depreciation expense	1,971,602	1,860,997	110,605
Other operating expenses	2,453,692	2,799,119	(345,427)
Total operating expenses	4,425,294	4,660,116	(234,822)
Operating loss	(1,636,990)	(2,514,893)	877,903
Non-operating revenues (expenses)	2,178,164	1,757,049	421,115
Change in net position	541,174	(757,844)	1,299,018
Total net position – beginning	42,887,097	43,644,941	(757,844)
Net effect of change in accounting policy	(265,252)	-	(265,252)
Total net position – beginning, as restated	42,621,845	43,644,941	(1,023,096)
Total net position - ending	$ 43,163,019	$ 42,887,097	$ 275,922

FINANCIAL ANALYSIS

- For the year ended June 30, 2015, the Authority's current assets increased approximately $1.9 million. This reflects an increase in cash of approximately $1.3 million due to the timing of invoices related to the bridge decks and bridge with box culvert replacement, and an increase in the amount of royalties received from gas and oil wells. The increase in current assets also reflects an increase in due from other governmental entities of approximately $590 thousand due to the timing of receipt of funds from the State of West Virginia.

- The Authority's capital assets decreased approximately $814 thousand for the year ended June 30, 2015 as a result of depreciation expense of approximately $2.0 million exceeding capital improvements of approximately $1.2 million.

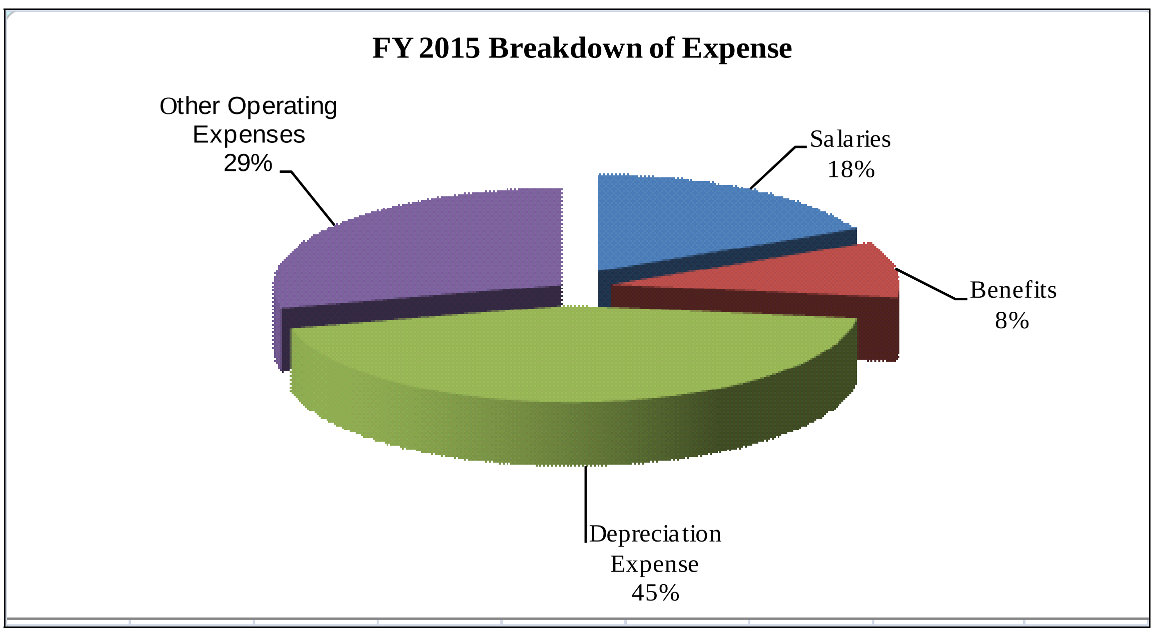
- The Authority's current liabilities increased approximately $532 thousand due to the timing of invoices related to the bridge decks and bridge with box culvert replacement.

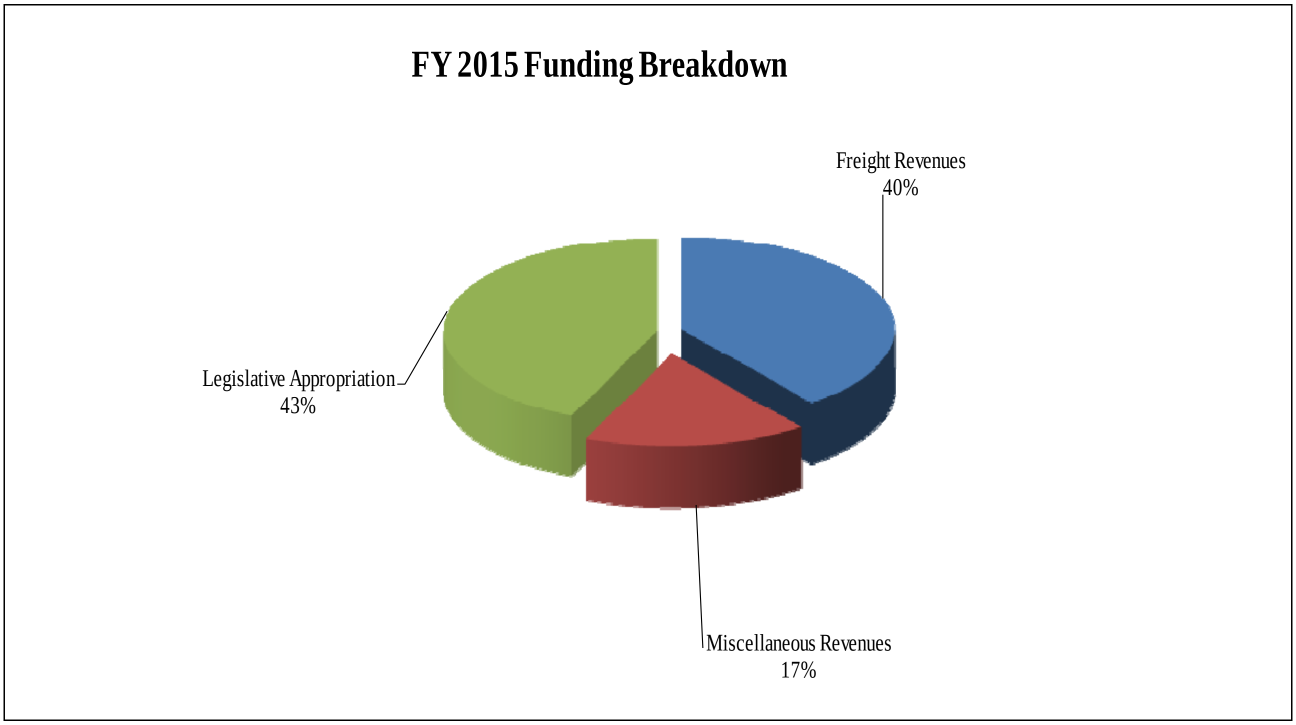
- The Authority's budget for the fiscal year ended June 30, 2015 consisted of funds received from the State of West Virginia General Fund, operating revenues from SBVR, revenues from the operator of the WVCR, and miscellaneous revenues received from the leases and licenses on railroad right-of-ways.

- The Authority received an approximate $2.2 million appropriation from the general fund of the State of West Virginia for capital improvement projects and maintenance projects on the SBVR and WVCR, upkeep of the Maryland Rail Commuter (MARC) train stations in the eastern panhandle, and the general operation of the Authority. This appropriation is about 43% 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.

- 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, 2015 budgeted projections. Miscellaneous revenues of approximately $820 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 30% in the fiscal year ended June 30, 2015. Miscellaneous revenue increased by 279% in the fiscal year ended June 30, 2015 due to an increase in oil and gas royalties.

The following graphs provide a visual representation of the funding (revenue and other income sources) and expenditures for the fiscal year ended June 30, 2015.





CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2015 and 2014 amounted to approximately $37.1 million and approximately $37.9 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, 2015 and 2014 are as follows:

	2015	2014
Land	$ 112,352	$ 64,776
Work equipment	15,975	21,632
Locomotive, freight and passenger cars	45,299	-
Railroad infrastructure	984,946	973,248
Total	$ 1,158,572	$ 1,059,656

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, 2016 budget includes approximately $3.8 million from the State of West Virginia and approximately $2.4 million from projected freight revenue. This funding will be used to complete capital improvement and rehabilitation projects on the SBVR and WVCR. The funding from the State of West Virginia includes approximately $1.6 million in appropriated funds for projects underway but not completed in 2015. 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, 2016 include continuing to upgrade and repair bridges, replacing cross ties, spreading ballast, surface, weld jointed rail at some locations, upgrading the Moorefield yard tracks and adding an addition to the shop building.

The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2016 include replacing cross ties, spreading ballast, surface, replacing culverts, and switch tie replacement in the South Elkins yard. This railroad has completed fifteen years of operations and continues to be a strong economic factor to the areas that it serves.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the West Virginia State Rail Authority at 120 Water Plant Drive, Moorefield, West Virginia, 26836.

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 6,884,468
Trade receivables	85,203
Inventories	37,837
Due from other governmental entities	658,244
Total current assets	7,665,752
Noncurrent assets	
Capital assets	63,485,093
Accumulated depreciation	(26,373,469)
Total noncurrent assets	37,111,624
Deferred outflows:	
Total deferred outflows	59,811
Total assets and deferred outflows	44,837,187
LIABILITIES	
Current liabilities	
Accounts payable	565,223
Accrued expenses	39,685
Compensated absences	60,122
Due to other governmental entities	168,721
Unearned revenue	3,364
Total current liabilities	837,115
Noncurrent liabilities	
Other post employment benefit liability	506,250
Net pension liability	119,175
Unearned revenue	59,843
Total noncurrent liabilities	685,268
Total liabilities	1,522,383
Deferred inflows:	
Total deferred inflows	151,785
Total liabilities and deferred inflows	1,674,168
NET POSITION	
Net investment in capital assets	37,111,624
Unrestricted	6,051,395
Total net position	$ 43,163,019

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

Operating revenues		
Freight	$	1,967,952
Miscellaneous		820,352
Total operating revenues		2,788,304
Depreciation expense		1,971,602
Other operating expenses		2,453,692
Total operating expenses		4,425,294
Operating income (loss)		(1,636,990)
Nonoperating revenues (expenses)		
Intergovernmental revenue		2,160,470
Interest income		18,280
Gain (loss) on disposition of assets		(586)
Total nonoperating revenues (expenses)		2,178,164
Change in net position		541,174
Total net position - beginning, as restated (see Note 3)		42,621,845
Total net position - ending	$	43,163,019

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

Cash flows from operating activities	
Cash received from customers and government	$ 2,788,508
Cash paid to employees	(627,152)
Cash paid to suppliers and government	(1,311,233)
Net cash provided (used) by operating activities	850,123
Cash flows from noncapital financing activities	
Transfers in from State of West Virginia	1,570,428
Net cash provided (used) by noncapital financing activities	1,570,428
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,158,572)
Net cash provided (used) by capital and related financing activities	(1,158,572)
Cash flows from investing activities	
Receipts of interest	18,280
Net cash provided (used) by investing activities	18,280
Increase (decrease) in cash and cash equivalents	1,280,259
Cash and cash equivalents, beginning of year	5,604,209
Cash and cash equivalents, end of year	$ 6,884,468
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating loss	$ (1,636,990)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	1,971,602
Net effect of GASB 68	(265,252)
Changes in operating assets and liabilities	
(Increase) decrease in trade receivables	3,567
(Increase) decrease in inventories	10,238
(Increase) decrease in other current assets	1,459
(Increase) decrease in deferred outflows	(59,811)
Increase (decrease) in accounts payable	491,883
Increase (decrease) in accrued expenses	(1,106)
Increase (decrease) in compensated absences	4,428
Increase (decrease) in due to other governmental entities	36,863
Increase (decrease) in unearned revenue	(3,364)
Increase (decrease) in other post employment benefits	25,646
Increase (decrease) in net pension liability	119,175
Increase (decrease) in deferred inflows	151,785
Net cash provided (used) by operating activities	$ 850,123

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The BTI maintains the Consolidated Fund investment fund, which consists of investment pools and participant-directed accounts, in three of which the Authority may invest. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, West Virginia 25305 or http://www.wvbti.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. As of June 30, 2015, 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.

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.

<u>Deferred Outflow of Resources</u> - A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The Authority's deferred outflows of resources consist of current year employer deferral amounts on the net pension obligation. These deferral amounts are applicable to a future reporting period, and therefore are reported as a deferred outflow of resources in the statement of net position.

<u>Deferred Inflow of Resources</u> - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. The Authority's deferred inflows of resources consist of investment earnings in excess of actuarial assumptions on the net pension obligation which are not available to pay current period expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2015, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Statements Issued By GASB

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. See note 3 for a discussion of the effect and additional disclosures at note 10.

The Governmental Accounting Standards Board has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 15, 2013. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision-usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The adoption of GASB Statement No. 69 had no impact on the June 30, 2015 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. See note 3 for a discussion of the effect and additional disclosures at note 10.

Recent Statements Issued By GASB

The Governmental Accounting Standards Board has also issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Authority has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets that accumulate for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 73 may have on its financial statements.

The Governmental Accounting Standards Board has also issued 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 Authority has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The Governmental Accounting Standards Board has also 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Authority has not yet determined the effect that the adoption of GASB Statement No. 76 may have on its financial statements.

The Governmental Accounting Standards Board has also issued 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 Authority has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

NOTE 3 - CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION

The Authority changed its method of accounting for the following items in order to comply with accounting principles generally accepted in the United States of America:

GASB 68 – As of July 1, 2014, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. These statements reclassified some items previously reported as expenses as deferred outflows and now requires the Authority to record the net pension liability and a more comprehensive measure of pension expense.

NOTE 3 - CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION (Continued)

The Authority determined that it was not practical to restate all periods presented and has recorded a cumulative decrease of $265,252 to the 2015 beginning net position. The $265,252 net effect of change in accounting policy is comprised of the net pension liability of $327,949 less deferred outflows of resources related to pension plan contributions of $62,697 as of June 30, 2014. The Authority further determined that it was not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2014 and these amounts are not reported.

Net position at the beginning of the year required restatement:

Net Position at June 30, 2014, as previously stated	$ 42,887,097
Net effect of change in accounting policy	(265,252)
Net Position at June 30, 2014, restated	$ 42,621,845

NOTE 4 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30, 2015:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 1,483	$ 1,483
Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool)	4,809,792	4,809,792
Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool)	2,073,193	2,073,193
	$ 6,884,468	$ 6,884,468

NOTE 4 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

BTI DISCLOSURE INFORMATION - (In Thousands)

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 invests, all are subject to credit risk.

WV Money Market Pool - Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2015, the WV Money Market Pool, has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization. The WV Money Market Pool is subject to credit risk.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. At June 30, 2015, the WV Money Market Pool investment had a total carrying value of $1,890,464 of which the Authority's ownership represents .25%.

NOTE 4 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

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

	Credit Rating			
Security Type	Moody's	S&P	Carrying Value (In Thousands)	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 106,301	13.96%
	Aaa	AA+	3,822	0.50
	Aaa	NR	105,366	13.84
	NR	AAA	80,008	10.51
Corporate bonds and notes	Aaa	AA+	7,689	1.01
	Aa1	AA+	5,013	0.66
	Aa1	AA	4,039	0.53
	Aa2	AA+	4,041	0.53
	Aa2	AA	6,987	0.92
	Aa2	AA-	15,025	1.97
	Aa2	A	1,496	0.20
	Aa2	A-	1,001	0.13
	Aa3	AA-	16,380	2.15
	Aa3	A+	15,787	2.07
	A1	AA+	7,097	0.93
	A1	AA-	21,552	2.83
	A1	A+	24,116	3.17
	A1	A	8,078	1.06
	A2	A+	4,617	0.61
	A2	A	45,485	5.97
	A2	A-	9,485	1.25
	A3	A-	43,564	5.72
	A3	A	20,699	2.72
	A3	BBB+	9,745	1.28
	Baa1	A	2,001	0.26
	Baa1	A-	27,754	3.64
	Baa1	BBB+	33,751	4.43
	Baa1	BBB	12,788	1.68
	Baa1	BBB-	500	0.07
	Baa2	BBB+	3,205	0.42
	Baa2	BBB	19,066	2.50
	Baa2	BBB-	3,008	0.40
	Baa3	BBB+	2,125	0.28
	Baa3	BBB	6,265	0.82
	Baa3	BBB-	17,460	2.29
U.S. agency mortgage backed securities *	Aaa	AA+	32,198	4.23
Money market funds	Aaa	AAAm	34,012	4.46
			$ 761,526	100.00%

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

At June 30, 2015, the Authority's ownership represents .27% of these amounts held by the BTI.

NOTE 4 - CASH INVESTMENTS 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 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	2015 Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 12,523	1
U.S. Treasury notes	229,760	75
U.S. Treasury bills	92,059	123
Commercial paper	846,764	30
Certificates of deposit	203,005	51
U.S. agency discount notes	304,342	60
Corporate bonds and notes	30,000	75
U.S. agency bonds	81,994	58
Money market funds	90,017	1
	$ 1,890,464	47

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	$ 399,822	495
Corporate asset backed securities	295,494	357
U.S. agency mortgage backed securities	32,198	267
Money market funds	34,012	1
	$ 761,526	410

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.

NOTE 4 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

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 5 - CAPITAL ASSETS

Capital assets balances and the activity for the year ended June 30, 2015 is summarized below:

	June 30, 2014 Balance	Additions	Deletions	June 30, 2015 Balance
Capital assets				
Land	$ 5,357,864	$ 112,352	$ -	$ 5,470,216
Land improvements	228,957	-	-	228,957
Buildings and improvements	554,060	-	-	554,060
Office equipment	45,325	-	-	45,325
Work equipment	2,112,942	15,975	71,079	2,057,838
Locomotives, freight and passenger cars	3,030,130	45,299	-	3,075,429
Railroad infrastructure	51,068,322	984,946	-	52,053,268
Total capital assets	$ 62,397,600	$ 1,158,572	$ 71,079	$ 63,485,093
Accumulated depreciation				
Land improvements	$ 130,174	$ 5,618	$ -	$ 135,792
Buildings and improvements	376,115	13,647	-	389,762
Office equipment	45,271	-	-	45,271
Work equipment	1,336,549	98,697	70,493	1,364,753
Locomotives, freight and passenger cars	1,576,719	130,920	-	1,707,639
Railroad infrastructure	21,007,532	1,722,720	-	22,730,252
Total accumulated depreciation	$ 24,472,360	$ 1,971,602	$ 70,493	$ 26,373,469

NOTE 6 - 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, 2015, the Authority incurred payroll related expenditures of approximately $80 thousand for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately $60 thousand in employer matching contributions to the State Public Retirement System. The Authority also paid the West Virginia Department of Highways approximately $410 thousand for bridge inspections, engineering services, labor and materials, and the Harper Valley Archeological Study. In addition, during the year ended June 30, 2015, the Authority received transfers of $2,160,470 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, 2015, the Authority had amounts due from the State of West Virginia of $658,244. The Office of the Secretary of Administration, Finance Division transferred $1,502,226 to the Authority for the year ended June 30, 2015.

NOTE 7 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2015, approximately 87.7% 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 8 - 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.

NOTE 8 - RISK MANAGEMENT (Continued)

American Zurich Insurance Company provides workers' compensation coverage to all West Virginia state agencies. Payments for coverage are made directly to the West Virginia State Insurance Commission who in turn purchases the workers' compensation coverage on behalf of all West Virginia state agencies. Nearly every employer in the state who has a payroll must have coverage. In exchange for premiums, the Authority transfers its risk of loss related to employee injuries to American Zurich Insurance Company.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Authority participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree postemployment healthcare benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the "Code"), assigns the authority to establish and amend benefit provisions to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, SE, Suite 2, Charleston, WV 25301-2345 or by calling 1-888-680-7342.

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

The Authority's ARC was $57,382, $33,822, and $38,893 and the Authority has paid premiums of $31,736, $27,808, and $31,150, which represent 55%, 82.2%, and 80.1% of the ARC, respectively, for the years ended June 30, 2015, 2014, and 2013. At June 30, 2015, the liability related to OPEB costs was $506,250.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 10 - 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.

Benefits Provided - 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 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. 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.

NOTE 10 - RETIREMENT PLAN (Continued)

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 14.0%, 14.5%, and 14.0% for the years ended June 30, 2015, 2014, and 2013, respectively. For periods prior to July 1, 2015, the employee contribution rate was 4.5%. Effective July 1, 2015 the employee contribution increases to 6.0% for new hires. The Authority's contribution to the Plan, excluding the employee's contribution paid by the Authority, approximated $59,811, $62,697, and $67,408 for the fiscal years ended June 30, 2015, 2014, and 2013, respectively.

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

At June 30, 2015, the Authority reported a liability of $119,175 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. 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, 2014, the Authority's proportionate share was 0.03%, which was a decrease of .01% from its proportionate share measured as of June 30, 2013.

For the year ended June 30, 2015, the Authority recognized pension expense of $5,708. At June 30, 2015, 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	$ -	$ 126,065
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	25,720
Authority contributions subsequent to the measurement date	59,811	-
Total	$ 59,811	$ 151,785

NOTE 10 - RETIREMENT PLAN (Continued)

$59,811 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, 2016. 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:		
2016	$	30,357
2017		30,357
2018		30,357
2019		30,357
2020		30,357

Actuarial assumptions and methods - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2%
Salary increases	4.25 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the 1983 Group Annuity Mortality (GAM) for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

NOTE 10 - RETIREMENT PLAN (Continued)

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
Fixed Income	15.0%	2.9 – 4.8%
Domestic Equity	27.5%	7.6%
International Equity	27.5%	8.5%
Real Estate	10.0%	6.8%
Private Equity	10.0%	9.9%
Hedge Funds	10.0%	5.0%
Total	100.0%	

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:

NOTE 10 - RETIREMENT PLAN (Continued)

	1% Decrease 6.5%	Total Net Pension Liability Discount Rate 7.5%	1% Increase 8.5%
PERS	$ 336,737	119,175	(66,215)

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 11 - NONCURRENT LIABILITITES

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
OPEB liability	$ 480,604	$ 57,382	$ (31,736)	$ 506,250	$ -
Net pension obligation	-	119,175	-	119,175	-
Total noncurrent liabilities	$ 480,604	$ 176,557	$ (31,736)	$ 625,425	$ -

NOTE 12 - 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, 2015

Public Employees Retirement System
Last 10 Fiscal Years*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Authority's proportion of the net pension liability (asset) (percentage)	0.03%	0.04%								
Authority's proportionate share of the net pension liability (asset)	$ 119,170	$ 327,949								
Authority's covered-employee payroll	$ 427,221	$ 432,393								
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.89%	75.85%								
Plan fiduciary net position as a percentage of the total pension liability	93.98%	79.70%								

* - The amounts presented for each fiscal year were determined as of June 30th .
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, 2015

Public Employees Retirement System
Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 59,811	$ 62,697	$ 67,408	$ 71,450	$ 85,019	$ 62,365	$ 67,343	$ 66,589	$ 66,393	$ 66,924
Contributions in relation to the contractually required contribution	(59,811)	(62,697)	(67,408)	(71,450)	(85,019)	(62,365)	(67,343)	(66,589)	(66,393)	(66,924)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 427,221	$ 432,393	$ 481,486	$ 492,759	$ 680,152	$ 566,955	$ 641,362	$ 634,181	$ 632,314	$ 637,371
Contributions as a percentage of covered-employee payroll	14.00%	14.50%	14.00%	14.50%	12.50%	11.00%	10.50%	10.50%	10.50%	10.50%

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), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 7, 2015.

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
December 7, 2015