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, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, 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.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008

Wharf District • 68 Clay Street • Suite C • Morgantown, WV 26501
Phone (304) 554-3371 • Fax (304) 554-3410

Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102
Phone (304) 485-6584 • Fax (304) 485-0971

www.suttlecpas.com • E-mail: cpa@suttlecpas.com
A Professional Limited Liability Company

Change in Accounting Principle

As described in Note 3 to the financial statements, in 2018, the Authority adopted new accounting guidance, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* 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, other post-employment benefits schedules, and related note on pages 39 - 44 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 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, 2018, the changes in its financial position, or 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, 2018, 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 solely 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 the effectiveness of the Authority’s 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, 2018

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, 2018. 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 $816 thousand as a result of this year's operations. The total amount of appropriated and re-appropriated projects in FY18 were more than the total projects in FY17, also $1.5 million in funds allocated for payment to Maryland for WV operating costs of the Maryland Area Rail Computer (MARC) train all resulted in an increase in the non-operating revenue (expenses).

- Operating expenses increased by approximately $1.7 million during the year ended June 30, 2018, and operating revenues decreased by approximately $400 thousand. This resulted in an operating loss increase of approximately $2.1 million compared to the year ended June 30, 2017. Salaries and benefits, car hire, diesel fuel, and liability and property insurance rates are normally the largest operating expenses and stayed steady from FY17 to FY18, however, $1.5 million due to Maryland Transit for the operating costs of the MARC train in West Virginia accounted for the increase in operating expenses. Freight revenue decreased due to handling less cars and a decrease in demurrage received from customers. South Branch Valley Railroad (SBVR) handled less cars because of damage to a silo at the Pilgrim's Pride feed mill, SBVR's largest customer. This resulted in the feed mill's inability to store corn. The corn had to be delivered as needed by trucks. This silo is being repaired and car volume is anticipated to increase in FY19. Also, miscellaneous revenues decreased due to a reduction in bonuses for new gas and oil leases.

- Non-operating revenues (expenses) were approximately $4.1 million in the year ended June 30, 2018 compared to non-operating revenues (expenses) of approximately $2.0 million in the year ended June 30, 2017. The increase in total non-operating revenues (expenses) of approximately $2.1 million was due to a $1.5 million appropriation received in FY18 for the MARC train operations that was not received in FY17 and total appropriated and non-appropriated dollars received in FY18 were $600 thousand higher than in FY17.

- The Authority completed approximately $2.4 million in capital improvements in the year ended June 30, 2018, including $1.6 Million for South Branch Valley Railroad (SBVR) bridge upgrades, installation of a 105-car switching yard and crosstie replacement, $71 thousand for SBVR equipment, $98 thousand for leasehold improvements, approximately $200 thousand for West Virginia Central Railroad (WVCR) for ties, and $421 thousand for buildings and land.

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, 2018 and 2017 are as follows:

Condensed Statements of Net Position

	2018	2017	Variance
Current assets	$ 8,572,673	$ 6,629,320	$ 1,943,353
Capital assets, net	38,828,620	38,540,416	288,204
Deferred outflows of resources	81,041	164,700	(83,659)
Total assets plus deferred outflows of resources	47,482,334	45,334,436	2,147,898
Current liabilities	2,097,907	469,257	1,628,650
Noncurrent liabilities	535,065	881,610	(346,545)
Deferred inflows or resources	78,936	28,996	49,940
Total liabilities plus deferred inflows of resources	2,711,908	1,379,863	1,332,045
Net position			
Invested in capital assets, net of related debt	38,828,620	38,540,416	288,204
Unrestricted	5,941,806	5,414,157	527,649
Total net position	$ 44,770,426	$ 43,954,573	$ 815,853

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

	2018	2017	Variance
Operating revenues			
Freight	$ 1,731,781	$ 2,001,788	$ (270,007)
Miscellaneous	826,307	938,308	(112,001)
Total operating revenues	2,558,088	2,940,096	(382,008)
Depreciation expense	2,055,848	1,996,254	59,594
Other operating expenses	3,932,190	2,314,377	1,617,813
Total operating expenses	5,988,038	4,310,631	1,677,407
Operating loss	(3,429,950)	(1,370,535)	(2,059,415)
Non-operating revenues (expenses)	4,062,612	1,985,083	2,077,529
Change in net position	632,662	614,548	18,114
Total net position – beginning	43,954,573	43,340,025	614,548
Net effect of change in accounting policy	183,191	-	183,191
Total net position – beginning, as restated	44,137,764	43,340,025	797,739
Total net position – ending	$ 44,770,426	$ 43,954,573	$ 815,853

FINANCIAL ANALYSIS

- For the year ended June 30, 2018, the Authority's current assets increased approximately $1.9 Million. This increase is due to a $1.5 million dollar appropriation received from the State of West Virginia for payment to the State of Maryland for the Maryland Rail Commuter (MARC) train service.

- The Authority's capital assets increased approximately $288 thousand which is the net depreciation expense of approximately $2.1 million and capital asset additions of $2.4 million. The 2.4 million capital asset additions for the year ended June 30, 2018 were the result of a few deferred projects from FY17 being completed in FY18 and FY18 funds being expended on numerous projects on the South Branch Valley Railroad (SBVR) and the West Virginia Central Railroad (WVCR).

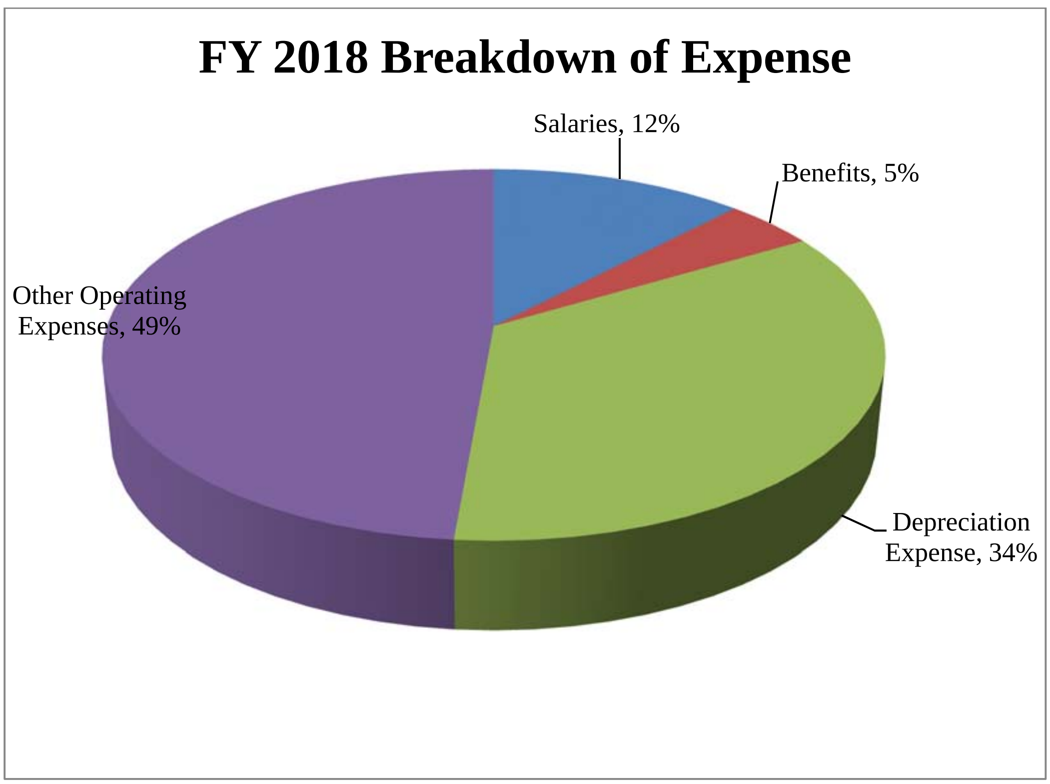
- The Authority's current liabilities increased approximately $1.6 million because of the payment due to the State of Maryland for the MARC train service at the end of FY18.

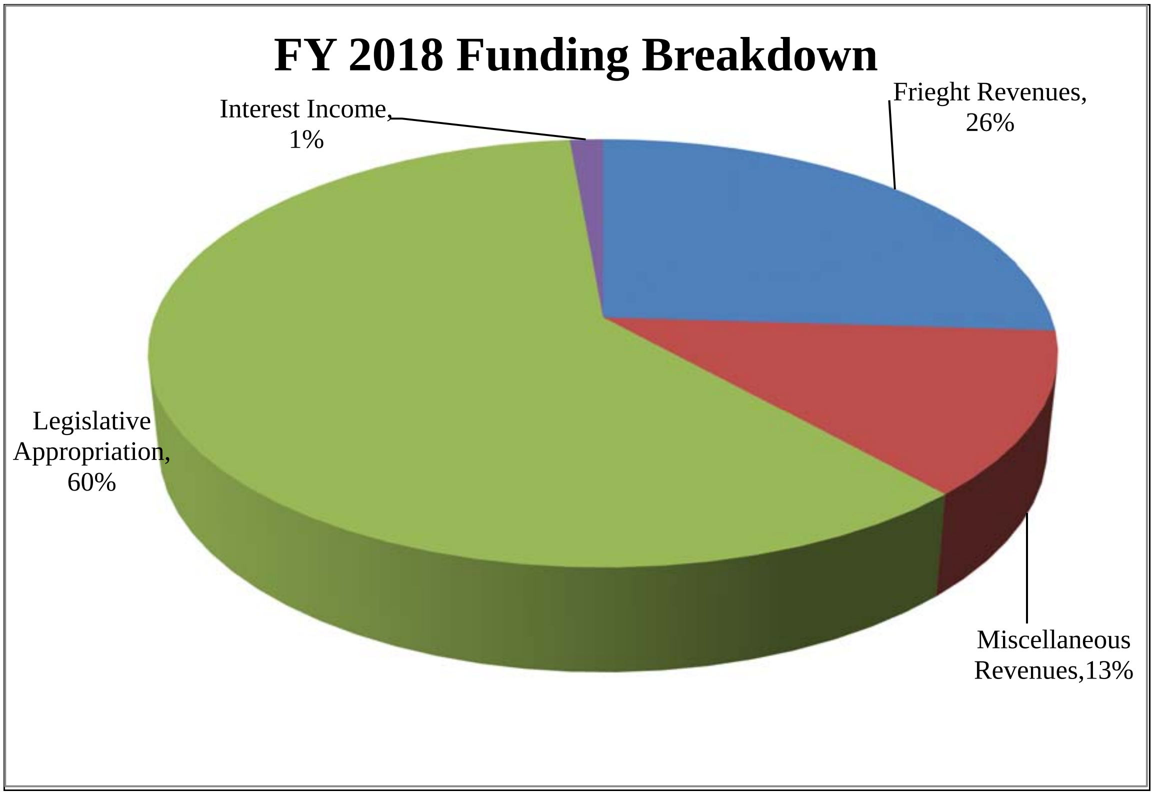
- The Authority's budget for the fiscal year ended June 30, 2018 consisted of funds received from the State of West Virginia General Fund, operating revenues from SBVR, revenues from the operator of the WVCR, and miscellaneous revenues received from the leases and licenses on railroad right-of-ways.

- Freight revenue of approximately $1.7 million was earned from the operations of the SBVR, which was in line with the year ended June 30, 2018 budgeted projections. Miscellaneous revenues of approximately $826 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 decreased by approximately 13.0% in the fiscal year ended June 30, 2018. Miscellaneous revenue decreased by 11.9% in the fiscal year ended June 30, 2018.

- The Authority received an approximate $4.0 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 payment to the Maryland Transit Administration for WV portions of MARC operating costs, and the general operating costs of the Authority. This appropriation is about 60% 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, 2018.





CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2018 and 2017 were $38.8 million and $38.5 million, respectively. This investment in capital assets includes land, buildings, railroad infrastructure, rail cars and equipment.

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

Capital asset additions for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Land	$ 120,000	$ -
Land Improvements	75,890	-
Buildings	225,000	-
Work Equipment	70,540	21,487
Locomotive, freight and passenger cars	-	495,000
Railroad infrastructure	1,818,827	1,521,288
Leasehold Improvements	98,284	188,362
Construction in progress	-	136,206
Total	$ 2,408,541	$ 2,362,343

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, 2019 budget includes approximately $2.5 million from the State of West Virginia and approximately $2.5 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 $404 thousand in appropriated funds for projects underway but not completed in 2018. 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, 2019 include continuing to upgrade and repair bridges, installing a locomotive sanding tower, replacing ties, and replacing two highway/railroad grade crossings.

The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2019 include replacing cross ties and upgrading bridges. This railroad has completed over 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, 7 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 and Duffield's, 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. Also, the Authority will continue to work with the state of Maryland to partner on programs to increase ridership and lower operating costs.

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, 2018

ASSETS	
Current assets	
Cash and cash equivalents	$ 8,050,161
Trade receivables	96,613
Inventories	20,942
Interest receivable	10,282
Due from other governmental entities	394,675
Total current assets	8,572,673
Noncurrent assets	
Capital assets	70,862,472
Accumulated depreciation	(32,033,852)
Total noncurrent assets	38,828,620
Deferred outflows:	
Deferred outflows related to pension	52,772
Deferred outflows related to other post-employment benefits	28,269
Total deferred outflows	81,041
Total assets and deferred outflows	47,482,334
LIABILITIES	
Current liabilities	
Accounts payable	1,682,313
Accrued expenses	40,575
Compensated absences	60,755
Due to other governmental entities	310,900
Unearned revenue	3,364
Total current liabilities	2,097,907
Noncurrent liabilities	
Other post employment benefit liability	351,600
Net pension liability	133,714
Unearned revenue	49,751
Total noncurrent liabilities	535,065
Total liabilities	2,632,972
Deferred inflows:	
Deferred inflows related to pension	45,860
Deferred inflows related to other post employment benefits	33,076
Total deferred inflows	78,936
Total liabilities and deferred inflows	2,711,908
NET POSITION	
Net investment in capital assets	38,828,620
Unrestricted	5,941,806
Total net position	$ 44,770,426

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

Operating revenues		
Freight	$	1,731,781
Miscellaneous		826,307
Total operating revenues		2,558,088
Depreciation expense		2,055,848
Other operating expenses		3,932,190
Total operating expenses		5,988,038
Operating income (loss)		(3,429,950)
Nonoperating revenues (expenses)		
Intergovernmental revenue		4,012,129
Interest income		92,802
Payments on behalf		22,170
Gain (loss) on disposition of assets		(64,489)
Total nonoperating revenues (expenses)		4,062,612
Change in net position		632,662
Total net position - beginning		43,954,573
Net effect of change in accounting policy		183,191
Total net position - beginning, as restated (see Note 3)		44,137,764
Total net position - ending	$	44,770,426

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

Cash flows from operating activities	
Cash received from customers and government	$ 2,482,153
Cash paid to and on behalf of employees	(721,645)
Cash paid to suppliers and government	(1,592,896)
Net cash provided (used) by operating activities	167,612
Cash flows from noncapital financing activities	
Transfers in from State of West Virginia	3,957,272
Net cash provided (used) by noncapital financing activities	3,957,272
Cash flows from capital and related financing activities	
Purchase of capital assets	(2,408,541)
Net cash provided (used) by capital and related financing activities	(2,408,541)
Cash flows from investing activities	
Receipts of interest	92,802
Net cash provided (used) by investing activities	92,802
Increase (decrease) in cash and cash equivalents	1,809,145
Cash and cash equivalents, beginning of year	6,241,016
Cash and cash equivalents, end of year	$ 8,050,161
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating loss	$ (3,429,950)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities	
Depreciation	2,055,848
Other post-employment benefits expense - special funding situation	22,170
Net effect of GASB 75	183,191
Changes in operating assets and liabilities	
(Increase) decrease in trade receivables	(72,571)
(Increase) decrease in inventories	(1,546)
(Increase) decrease in interest receivable	(5,234)
(Increase) decrease in deferred outflows	83,659
Increase (decrease) in accounts payable	1,651,180
Increase (decrease) in accrued expenses	(2,647)
Increase (decrease) in compensated absences	414
Increase (decrease) in due to other governmental entities	(20,297)
Increase (decrease) in unearned revenue	(3,364)
Increase (decrease) in other post employment benefits	(190,736)
Increase (decrease) in net pension liability	(152,445)
Increase (decrease) in deferred inflows	49,940
Net cash provided (used) by operating activities	$ 167,612

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, 2018, 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 - 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.

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. Additional information can be found in Note 12.

Other Post Employment Benefit (OPEB) Liability - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by West Virginia Retiree Health Benefit Trust Fund (RHBT). For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 12 for further discussion.

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.

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, 2018, 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 Authority implemented 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. See note 3 for a discussion of the effect and additional disclosures at Note 12.

The Authority implemented 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 adoption of GASB Statement No. 85 had no impact on the June 30, 2018 financial statements.

Recent Statements Issued By GASB - The Governmental Accounting Standards Board has 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.

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. 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement,* effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Authority has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 89 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 75 – As of July 1, 2017, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement reclassified some items previously reported as expenses as deferred outflows of resources and deferred inflows of resources. This statement also changed the valuation methodology used to record the net other postemployment benefits (OPEB) liability.

Employer contributions to the West Virginia Retiree Health Benefit Trust Fund (RHBT) made subsequent to the measurement date are now recorded as deferred outflows of resources. For the fiscal year ended June 30, 2018, the Authority reported $28,269 as deferred outflows of resources relating to these payments. Additionally, the net difference between the projected and actual investment earnings are required to be recorded as deferred inflows of resources or deferred outflows of resources and are amortized over 5 years. All other deferred outflows of resources and deferred inflows or resources relating to the OPEB liability are amortized over 4.71 years, the average expected remaining service life. For the fiscal year ended June 30, 2018, the Authority reported deferred inflows of resources relating to these earnings of $33,076.

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

Net effect of the change in accounting policy on beginning net position is as follows:

Net position at June 30, 2017, as previously stated	$ 43,954,573
Net effect of change in accounting policy	183,191
Net position at June 30, 2018, restated	$ 44,137,764

NOTE 4 - CASH INVESTMENTS AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30, 2018:

	Amortized Cost	Estimated Fair Value
Cash on deposit with State Treasurer	$ 1,525,110	$ 1,525,110
Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool)	4,374,555	4,374,555
Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool)	2,150,496	2,150,496
	$ 8,050,161	$ 8,050,161

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.

NOTE 4 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

WV Money Market Pool - Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2018, 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 long-term corporate debt be rated A+ by Standard & Poor's (or its equivalent) or higher and short-term corporate debt be rated at least A-1 by Standard & Poor's (or its equivalent). 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, 2018, the WV Money Market Pool investment had a total carrying value of $3,264,060 of which the Authority's ownership represents .13%.

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 long-term corporate debt be rated BBB- by Standard & Poor's (or its equivalent) or higher and all short-term corporate debt be rated at least A-1 by Standard & Poor's (or its equivalent). Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's (or its equivalent). 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 4 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

	Credit Rating		June 30, 2018	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets
U.S. Treasury notes *	Aaa	AA+	$ 86,189	12.10%
U.S. agency collateralized mortgage obligations *	Aaa	AA+	32,546	4.57
Corporate fixed- and floating-rate bonds and notes	Aaa	AAA	2,878	0.40
	Aa1	AA+	5,012	0.70
	Aa2	AA+	3,990	0.56
	Aa2	AA-	7,094	1.00
	Aa2	A+	9,940	1.39
	Aa3	AA-	13,999	1.96
	Aa3	A+	5,084	0.71
	A1	AA-	11,813	1.66
	A1	A+	10,595	1.49
	A1	A	6,306	0.88
	A1	A-	3,273	0.46
	A2	A+	5,968	0.84
	A2	A	27,673	3.89
	A2	A-	11,531	1.62
	A3	A	8,974	1.26
	A3	A-	29,872	4.19
	A3	BBB+	27,112	3.80
	Baa1	A	2,828	0.40
	Baa1	A-	8,922	1.25
	Baa1	BBB+	28,242	3.96
	Baa1	BBB	13,078	1.84
	Baa2	A-	1,016	0.14
	Baa2	BBB+	8,353	1.17
	Baa2	BBB	30,250	4.25
	Baa2	BBB-	2,946	0.41
	Baa3	BBB+	3,003	0.42
	Baa3	BBB	8,548	1.20
	Baa3	BBB-	12,378	1.74
	Baa3	NR	2,135	0.30
	Ba1	A-	350	0.05
	Ba1	BBB	2,007	0.28
	Ba1	BBB-	6,219	0.87
	NR	BBB+	2,572	0.36
	NR	BBB-	1,953	0.28
Collateralized mortgage obligations	Aaa	AAA	14,773	2.07
	Aaa	NR	3,308	0.46
Commercial mortgage-backed securities	Aaa	NR	3,014	0.42
Asset-backed securities	Aaa	AAA	87,146	12.23
	Aaa	NR	88,599	12.44
	NR	AAA	66,039	9.27
Money market funds	Aaa	AAAm	5,054	0.71
			$ 712,582	100.00%

NR = Not Rated
* U.S. Treasury issues and U.S. agency collateralized mortgage obligations are explicitly guaranteed by the United States Government and are not considered to have credit risk.

At June 30, 2018, the Authority's ownership represents .30% of 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	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 227,800	3
U.S. Treasury notes	90,330	73
U.S. Treasury bills	252,084	69
Commercial paper	1,868,900	36
Negotiable certificates of deposit	663,801	29
Corporate bonds and notes	18,078	21
Money market funds	143,067	3
	$ 3,264,060	34

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 fixed-rate bonds and notes	$ 178,097	696
Corporate floating-rate bonds and notes	147,817	44
Collateralized mortgage obligations	18,081	106
U.S. Treasury notes and bonds	86,189	472
U.S. agency collateralized mortgage obligations	32,546	56
Commercial mortgage-backed securities	3,014	52
Asset-backed securities	5,054	-
Money market funds	241,784	374
	$ 712,582	372

NOTE 4 - 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 5 - CAPITAL ASSETS

Capital assets balances and the activity for the year ended June 30, 2018 is summarized below:

	June 30, 2017 Balance	Additions	Deletions	June 30, 2018 Balance
Capital assets				
Land	$ 5,565,216	$ 120,000	$ -	$ 5,685,216
Land improvements	840,826	75,890	-	916,716
Buildings and improvements	554,060	225,000	-	779,060
Office equipment	45,325	-	-	45,325
Work equipment	2,138,038	70,540	-	2,208,578
Locomotives, freight and passenger cars	3,604,373	454,019	-	4,058,392
Railroad infrastructure	54,856,833	1,818,827	142,771	56,532,889
Leasehold improvements	538,012	98,284	-	636,296
Construction in progress	454,019	-	454,019	-
Total capital assets	$ 68,596,702	$ 2,862,560	$ 596,790	$ 70,862,472
Accumulated depreciation				
Land improvements	$ 187,821	$ 48,940	$ -	$ 236,761
Buildings and improvements	417,052	18,333	-	435,385
Office equipment	45,325	-	-	45,325
Work equipment	1,528,187	81,813	-	1,610,000
Locomotives, freight and passenger cars	1,974,404	158,628	-	2,133,032
Railroad infrastructure	25,894,530	1,728,357	78,282	27,544,605
Leasehold improvements	8,967	19,777	-	28,744
Total accumulated depreciation	$ 30,056,286	$ 2,055,848	$ 78,282	$ 32,033,852

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, 2018, 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 $41 thousand in employer matching contributions to the State Public Retirement System. The Authority also paid the West Virginia Department of Highways approximately $526 thousand for bridge inspections, engineering services, labor and materials. In addition, during the year ended June 30, 2018, the Authority received transfers of $4,012,129 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, 2018, the Authority had amounts due from the State of West Virginia of $394,675. The Office of the Secretary of Administration, Finance Division transferred $3,617,454 to the Authority for the year ended June 30, 2018.

NOTE 7 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2018, approximately 93% 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 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 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.

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 11.0%, 12.0%, and 13.5% for the years ended June 30, 2018, 2017, and 2016, respectively. Effective July 1, 2018, a decrease in the contribution rate of 1.0%, will decrease the Authority's contribution rate to 10.0%. 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 $40,924, $51,041, and $67,545 for the fiscal years ended June 30, 2018, 2017, and 2016, 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, 2018, the Authority reported a liability of $133,714 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to the measurement date of June 30, 2017. 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, 2017, the Authority's proportionate share was 0.03%, which was consistent with its proportionate share measured as of June 30, 2016.

For the year ended June 30, 2018, the Authority recognized pension expense of $17,044. At June 30, 2018, 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	$ -	$ 32,367
Differences between expected and actual experience	11,848	295
Changes of assumptions	-	6,906
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	6,292
Authority contributions subsequent to the measurement date	40,924	-
Total	$ 52,772	$ 45,860

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, 2019. 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:	
2019	$ (16,454)
2020	11,529
2021	(1,199)
2022	(27,888)
	$ (34,012)

NOTE 9 - RETIREMENT PLAN (Continued)

Actuarial assumptions and methods - The total pension liability in the June 30, 2017 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 100% of RP-2000 Non-Annuitant, Scale AA fully generational for active members, 110% of RP-2000 Healthy Annuitant, Scale AA fully generational for retired healthy males, 101% of RP-2000 Healthy Annuitant, Scale AA fully generational for retired healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

The actuarial assumptions used in the June 30, 2017 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 future 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. Best estimates of long term geometric rates of 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%
U.S. equity	27.5%	7.0%
International equity	27.5%	7.7%
Real estate	10.0%	7.0%
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	$ 368,581	$ 133,714	$ (65,929)

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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
OPEB liability	$ 542,336	$ 17,044	$ (207,780)	$ 351,600	$ -
Net pension liability	286,159	25,530	(177,975)	133,714	-
Total noncurrent liabilities	$ 828,495	$ 42,574	$ (385,755)	$ 485,314	$ -

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.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS

As related to the implementation of GASB 75, following are Authority's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, revenues, and the OPEB expense and expenditures for the fiscal year ended June 30, 2018:

	2018
Net OPEB liability	$ 351,600
Deferred outflows of resources	28,269
Deferred inflows of resources	33,076
Revenues	22,170
OPEB expense	47,700
Contributions made by Authority	28,269

Plan Description - The West Virginia Other Postemployment Benefit (OPEB) Plan (the Plan) is a cost-sharing, multiple employer, defined benefit other postemployment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State established July 1, 2006 as an irrevocable trust. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with the approval of the PEIA Finance Board. The plan provides medical and prescription drug insurance, as well as life insurance, benefits to certain retirees of State agencies, colleges and universities, county boards of education, and other government entities who receive pension benefits under the PERS, STRS, TDCRS, TIAA-CREF, Plan G, Troopers Plan A, or Troopers Plan B pension systems, as administered by the West Virginia Consolidated Public Retirement Board (CPRB). The plan is closed to new entrants.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The Plan's fiduciary net position has been determined on the same basis used by the Plan. The RHBT is accounted for as a fiduciary fund, and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP for fiduciary funds as prescribed or permitted by the GASB. The primary sources of revenue are plan members and employer contributions. Members' contributions are recognized in the period in which the contributions are due. Employer contributions and related receivables to the trust are recognized pursuant to a formal commitment from the employer or statutory or contractual requirement, when there is a reasonable expectation of collection. Benefits and refunds are recognized when due and payable.

RHBT is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. RHBT issues publicly available financial statements and required supplementary information for the OPEB plan. Details regarding this plan and a copy of the RHBT financial report may be obtained by contacting PEIA at 601 57th Street SE, Suite 2, Charleston, West Virginia 25304-2345, or by calling (888) 680-7342.

Benefits Provided - The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life insurance

The medical and prescription drug insurance is provided through two options:

- Self-Insured Preferred Provider Benefit Plan – primarily for non-Medicare-eligible retirees and spouses
- External Managed Care Organizations – primarily for Medicare-eligible retirees and spouses

Contributions - Employer contributions from the RHBT billing system represent what the employer was billed during the respective year for its portion of the pay-as-you-go (paygo) premiums, retiree leave conversion billings, and other matters, including billing adjustments.

Paygo premiums are established by the PEIA Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The paygo rates related to the measurement date of June 30, 2017 were:

	July 2016-December 2016 2017	January 2017-June 2017 2017
Paygo premium	$ 196	$ 135

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired after July 1, 1997 or hired before June 30, 2010 pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010 pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or annual leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988 to June 30, 2001 may convert accrued sick or annual leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

The Authority's contributions to the OPEB plan for the years ended June 30, 2018, 2017, and 2016, were $28,269, $29,369, and $26,237, respectively.

<u>Assumptions</u> - The total OPEB liability for financial reporting purposes was determined by an actuarial valuation as of July 1, 2016 and rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method: Entry age normal cost method.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method: Level percentage of payroll over a 21 year closed period.
- Remaining amortization period: 21 years closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims cost beginning in 2020 to account for the Excise Tax.
- Projected salary increases: Dependent upon pension system ranging from 3.0-6.5%, including inflation.
- Inflation rate: 2.75%.
- Mortality rates based on RP-2000 Mortality Tables.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2010 to June 30, 2015. These assumptions will remain in effect for valuation purposes until such time as the RHBT adopts revised assumptions.

The projections of the net OPEB liability are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of the net OPEB liability does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation and any estimate of future postemployment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, changes in the investment rate of return, and other matters increase the level of uncertainty in such estimates. As such, the estimate of postemployment program costs contains considerable uncertainty and variability, and actual experience may vary significantly from the current estimated net OPEB liability.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the WV Investment Management Board and an expected short-term rate of return of 3.00% for assets invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 percentage and by adding expected inflation. Best estimates of the long-term geometric rates of return for each major asset class included in RHBT's target asset allocation as of June 30, 2017, are summarized below.

Asset Class	Target Allocation
Domestic equity	27.5%
International equity	27.5%
Fixed income	15.0%
Real estate	10.0%
Private equity	10.0%
Hedge funds	10.0%

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Asset Class	Long-term Expected Real Rate of Return
Large cap domestic	17.0%
Non-large cap domestic	22.0%
International qualified	24.6%
International non-qualified	24.3%
International equity	26.2%
Short-term fixed	0.5%
Total return fixed income	6.7%
Core fixed income	0.1%
Hedge fund	5.7%
Private equity	19.6%
Real estate	8.3%
Opportunistic income	4.8%
Cash	0.0%

Discount rate - The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will continue to follow the current funding policies. Based on those assumptions and that the OPEB plan is expected to be fully funded by the fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents Authority's proportionate share of the net OPEB liability as of June 30, 2018 calculated using the discount rate of 7.15%, as well as what Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate.

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB liability	$ 409,398	$ 351,600	$ 303,554

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate - The following presents Authority's proportionate share of the net OPEB liability as of June 30, 2018 calculated using the healthcare cost trend rate, as well as what Authority's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 295,349	$ 351,600	$ 420,398

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - The June 30, 2018 net OPEB liability was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to the measurement date of June 30, 2017.

At June 30, 2018, Authority's proportionate share of the net OPEB liability was $423,819. Of this amount, Authority recognized $351,600 as its proportionate share on the statement of net position. The remainder of $72,219 denotes Authority's proportionate share of net OPEB liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on its proportionate share of employer and non-employer contributions to OPEB for each of the fiscal years ended June 30, 2017 and 2016. Employer contributions are recognized when due. At the June 30, 2017 measurement date, Authority's proportion was 0.014%, a decrease of 0.002% from its proportion of 0.016% calculated as of June 30, 2016.

For the year ended June 30, 2018, Authority recognized OPEB expense of $47,700. Of this amount, $25,530 was recognized as Authority's proportionate share of OPEB expense and $22,170 as the amount of OPEB expense attributable to special funding from a non-employer contributing entity. Authority also recognized revenue of $22,170 for support provided by the State.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows.

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,177
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	26,287
Net difference between projected and actual investment earnings	-	5,612
Contributions after the measurement date	28,269	-
Total	$ 28,269	$ 33,076

The Authority will recognize the $28,269 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30:	
2019	$ (8,269)
2020	(8,269)
2021	(8,269)
2022	(8,269)
	$ (33,076)

Payables to the OPEB Plan - Authority did not report any amounts payable for normal contributions to the OPEB plan as of June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2018

Public Employees Retirement System
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Authority's proportion of the net pension liability (asset) (percentage)	0.03%	0.03%	0.03%	0.03%	0.04%					
Authority's proportionate share of the net pension liability (asset)	$ 133,714	$ 286,159	$ 176,825	$ 119,170	$ 327,949					
Authority's covered payroll	$ 425,342	$ 500,333	$ 427,221	$ 432,393	$ 481,486					
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	31.44%	57.19%	41.39%	27.56%	68.11%					
Plan fiduciary net position as a percentage of the total pension liability	93.67%	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, 2018

Public Employees Retirement System
Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 40,924	$ 51,041	$ 67,545	$ 59,811	$ 62,697	$ 67,408	$ 71,450	$ 85,019	$ 62,365	$ 67,343
Contributions in relation to the contractually required contribution	(40,924)	(51,041)	(67,545)	(59,811)	(62,697)	(67,408)	(71,450)	(85,019)	(62,365)	(67,343)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 372,036	$ 425,342	$ 500,333	$ 427,221	$ 432,393	$ 481,486	$ 492,759	$ 680,152	$ 566,955	$ 641,362
Contributions as a percentage of covered payroll	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%	14.50%	12.50%	11.00%	10.50%

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY
June 30, 2018

Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Authority's proportion of the net OPEB liability (asset) (percentage)	0.01%									
Authority's proportionate share of the net OPEB liability (asset)	$ 351,600									
State's proportionate share of the net OPEB liability (asset)	72,219									
Total proportionate share of the net OPEB liability (asset)	$ 423,819									
Authority's covered-employee payroll	$ 431,873									
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	81.41%									
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%									

* - The amounts presented for each fiscal year were determined as of June 30th of the previous year (measurement date).

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority should present information for those years for which information is available.

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF OTHER POST-EMPLOYMENT BENEFITS (OPEB) CONTRIBUTIONS
June 30, 2018

Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	$ 28,269	$ 29,369								
Contributions in relation to the statutorily required contribution	(28,269)	(29,369)								
Contribution deficiency (excess)	$ -	$ -								
Authority's covered-employee payroll	$ 401,209	$ 431,873								
Contributions as a percentage of covered-employee payroll	7.05%	6.80%								

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority should present information for those years for which information is available.

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

Actuarial Changes Pension Plan

An experience study, which was based on the years 2009 through 2014, was approved by the Consolidated Public Retirement Board. As a result, valuation assumptions were changed as of June 30, 2017 to reflect the most recent experience study:

	Projected Salary Increases				Withdrawal Rates		
	State	Nonstate	Inflation rate	Mortality Rates	State	Nonstate	Disability Rate
2017	3.00% - 4.6%	3.35% - 6.0%	3.00%	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101% of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational	1.75-35.10%	2-35.88%	0.007-.675%
2016	3.00% - 4.6%	3.35% - 6.0%	3.00%	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101 % of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational	1.75-35.10%	2-35.88%	0.007-.675%
2015	3.00% - 4.6%	3.35% - 6.0%	1.90%	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA; Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA; Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA; Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	1.75-35.1%	2-35.8%	0-.675%
2014	4.25% - 6.0%	4.25% - 6.0%	2.20%	Healthy males - 1983 GAM; Healthy females-1971; disabled males - 1971 GAM; Disabled females - Revenue ruling 96-7	1-26%	2-31.2%	0-.8%

Actuarial Changes Other Postemployment Benefits Plan

There are no other factors that affect trends in the amounts reported, such as a change of benefit terms, size or composition of the population covered by the benefit terms, or other assumptions. Additional information, if necessary, can be obtained from the RHBT audited Financial Statements, Required Supplementary Information, and Other Financial Information for the year ended June 30, 2017.

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, 2018, 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, 2018. Our report also includes an emphasis of a matter for the adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion was not modified with respect to this matter.

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.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008
Wharf District • 68 Clay Street • Suite C • Morgantown, WV 26501
Phone (304) 554-3371 • Fax (304) 554-3410
Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102
Phone (304) 485-6584 • Fax (304) 485-0971
www.suttlecpas.com • E-mail: cpa@suttlecpas.com
A Professional Limited Liability Company

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, 2018