
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, 2022

AND

INDEPENDENT AUDITOR'S REPORT



**Suttle &
Stalnaker**

Certified
Public
Accountants

A Professional Limited Liability Company



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2022, and the changes in the financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2022, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on the test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 - 11 and the pension schedules, other post-employment benefits schedules, and related notes on pages 39 - 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022, 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.

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

Charleston, West Virginia

October 3, 2022

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

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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, 2022. 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 decreased by approximately \$1.6 million as a result of this year's operations. The decrease in the Authority's net position was due to a decrease in non-operating revenue.
- Operating expenses decreased by approximately \$5.3 million during the year ended June 30, 2022, and operating revenues increased by approximately \$577 thousand. This resulted in an operating loss decrease of approximately \$5.9 million compared to the year ended June 30, 2021. Salaries and benefits, car hire, diesel fuel, and liability and property insurance stayed steady from FY21 to FY22. In FY22, the Authority expended \$750 thousand for the MARC Train service, compared to the \$2.8 million in FY21. Additionally, there was an overall decrease in ongoing project expenditures in FY22 when compared to FY21. This accounts for the decrease in operating expenses. Freight revenue decreased due to handling less cars again in FY22. However, miscellaneous revenue increased due to gas and oil royalties increasing, resulting in an overall operating revenue increase in FY22.
- Non-operating revenues (expenses) were approximately \$1.7 million in the year ended June 30, 2022, compared to non-operating revenues (expenses) of approximately \$11.8 million in the year ended June 30, 2021. The decrease in total non-operating revenues (expenses) of approximately \$10.1 million was due to no re-appropriations in FY22 for the Maryland Area Railroad Commuter (MARC) train operations as compared to \$3.5 million in FY21. In addition, less State appropriations were used in FY22 compared to FY21 for deferred projects utilizing re-appropriated funds to complete.
- The Authority completed approximately \$819 thousand in capital improvements in the year ended June 30, 2022, including \$32 thousand for land, \$95 thousand for roof replacement on two structures and \$43 thousand for a new vehicle lift, and \$649 thousand in infrastructure projects.

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

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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 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 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 cash came 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, 2022, and 2021 are as follows:

Condensed Statements of Net Position

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Current assets	\$ 7,048,176	\$ 10,315,131	\$ (3,266,955)
Capital assets, net	36,989,378	38,718,314	(1,728,936)
Other noncurrent assets	263,791	-	263,791
Deferred outflows of resources	<u>145,841</u>	<u>149,937</u>	<u>(4,096)</u>
Total assets plus deferred outflows of resources	<u>44,447,186</u>	<u>49,183,382</u>	<u>(4,736,196)</u>
Current liabilities	424,096	3,599,646	(3,175,550)
Noncurrent liabilities	36,295	248,424	(212,129)
Deferred inflows of resources	<u>482,661</u>	<u>204,655</u>	<u>278,006</u>
Total liabilities plus deferred inflows of resources	<u>943,052</u>	<u>4,052,725</u>	<u>(3,109,673)</u>
Net position			
Net investment in capital assets	36,989,378	38,718,314	(1,728,936)
Unrestricted	<u>6,514,756</u>	<u>6,412,343</u>	<u>102,413</u>
Total net position	<u>\$ 43,504,135</u>	<u>\$ 45,130,657</u>	<u>\$ (1,626,523)</u>

WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

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

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Operating revenues			
Freight	\$ 1,061,329	\$ 1,254,941	\$ (193,612)
Miscellaneous	<u>1,094,908</u>	<u>324,584</u>	<u>770,324</u>
Total operating revenues	<u>2,156,237</u>	<u>1,579,525</u>	<u>576,712</u>
Depreciation expense	2,229,231	2,159,875	69,356
Other operating expenses	<u>3,225,508</u>	<u>8,634,011</u>	<u>(5,408,503)</u>
Total operating expenses	<u>5,454,739</u>	<u>10,793,886</u>	<u>(5,339,147)</u>
Operating loss	(3,298,502)	(9,214,361)	5,915,859
Non-operating revenues (expenses)	<u>1,671,979</u>	<u>11,743,648</u>	<u>(10,071,669)</u>
Change in net position	(1,626,523)	2,529,287	(4,155,810)
Total net position – beginning	<u>45,130,657</u>	<u>42,601,370</u>	<u>(2,529,287)</u>
Total net position – ending	<u>\$ 43,504,134</u>	<u>\$ 45,130,657</u>	<u>\$ (1,626,523)</u>

FINANCIAL ANALYSIS

- For the year ended June 30, 2022, the Authority's current assets decreased approximately \$3.3 million. This amount includes a decrease of approximately \$859 thousand in amounts due from other governments as well as a decrease of approximately \$2.4 million in cash. Both are due to timing of projects and payments received and paid at year end.
- The Authority's capital assets decreased approximately \$1.7 million which is the net depreciation expense of approximately \$2.2 million and capital asset additions of \$501 thousand. The \$501 thousand capital asset additions for the year ended June 30, 2022, were the result of numerous projects on the South Branch Valley Railroad (SBVR).
- The Authority's current liabilities decreased approximately \$3.2 million. In FY22 current liabilities were down due to no pending payments to the State of Maryland for the MARC train.
- The Authority's budget for the fiscal year ended June 30, 2022, 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 rights-of-way.

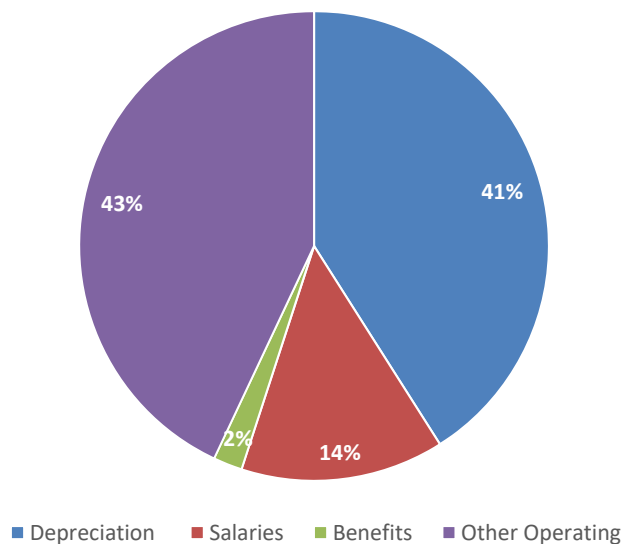
WEST VIRGINIA STATE RAIL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

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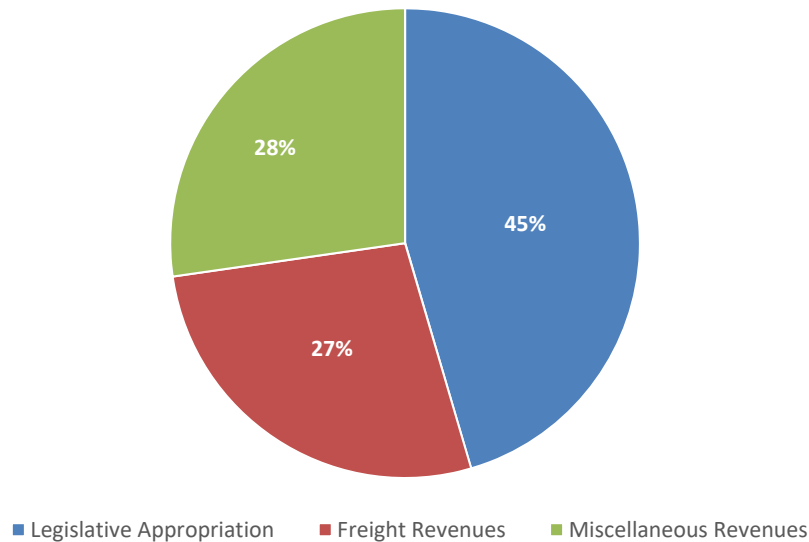
- Freight revenue of approximately \$1.1 million was earned from the operations of the SBVR, which was in line with the year ended June 30, 2022, budgeted projections. Miscellaneous revenues of approximately \$1.1 million were earned in addition to the freight revenue. The miscellaneous revenue is made up of right-of-way leases on the SBVR and WVCR, royalties from gas wells, and income received from the excursion train operators. This revenue is used to help pay the operating expenses of the SBVR. Total operating revenues increased by approximately 36.51% in the fiscal year ended June 30, 2022. Miscellaneous revenue increased by approximately 237.33% in the fiscal year ended June 30, 2022. Increase in miscellaneous revenue is due to an increase in the amount received from oil and gas royalties in FY22 as compared to FY21. Oil and gas production are back up to FY2019 production levels after the past two years showed decreases due to the pandemic.
- The Authority received an approximate \$1.8 million appropriation from the general fund of the State of West Virginia for capital improvement projects and maintenance projects on the SBVR and WVCR, upkeep of the Maryland Rail Commuter (MARC) train stations in the eastern panhandle, and the general operating costs of the Authority. This appropriation is about 45% of the total funds received. Funds will continue to be utilized for capital improvements and maintenance costs on the SBVR and WVCR 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, 2022.

Breakdown of Expense



Funding Breakdown



CAPITAL ASSETS

The Authority's net capital assets as of June 30, 2022, and 2021 were \$37.0 million and \$38.7 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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Work Equipment	\$ -	\$ 56,642
Buildings	137,853	-
Railroad infrastructure	637,175	3,192,110
Land	31,900	-
Construction in progress	<u>12,368</u>	<u>910,729</u>
Total	<u>\$ 819,296</u>	<u>\$ 4,159,481</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority's year ending June 30, 2023, 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 \$321 thousand in appropriated funds for projects underway but not completed in 2022.

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, 2023, include continuing to upgrade and repair bridges, and replacing ties.

The capital improvement projects planned on the WVCR for the fiscal year ending June 30, 2023, 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 as 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. A capital improvement project planned for completion in FY23 is to complete the bridge replacement on this out of service section. This bridge will be the final connection to complete this project.

The acquisition of the BCGRR is the first phase in the State acquiring the Elk River Trail. The BCGRR will be the only railroad portion and will include a trail beside it that will connect to the Elk River Trail. This will be a tourist only railroad. Currently, FEMA funds are being administered by the Clay County Business Development Authority through Homeland Security, to restore the railroad. This restoration project should be completed in FY23. After the repairs are completed, a decision will be made as to what type of tourist excursion will operate on the railroad.

In February 2022, House Bill 4492 was introduced to the West Virginia Legislature with the intent to create the West Virginia Division of Multimodal Transportation. This combines the powers and duties of the Public Port Authority, the West Virginia State Rail Authority and the state Aeronautics Commission. This house bill was passed and was set to take effect July 1, 2022.

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, 2022

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ASSETS

Current assets	
Cash and cash equivalents	\$ 6,773,306
Trade receivables	60,014
Inventories	17,274
Interest receivable	510
Due from other governmental entities	197,072
Total current assets	<u>7,048,176</u>
Noncurrent assets	
Capital assets	77,248,225
Accumulated depreciation	(40,258,847)
	<u>36,989,378</u>
Net pension asset	259,851
Net other post-employment benefits asset	3,940
Total noncurrent assets	<u>37,253,169</u>
Deferred outflows	
Deferred outflows related to pension	128,726
Deferred outflows related to other post-employment benefits	17,115
Total deferred outflows	<u>145,841</u>
Total assets and deferred outflows	<u>44,447,186</u>

LIABILITIES

Current liabilities	
Accounts payable	23,619
Accrued expenses	103,744
Compensated absences	100,862
Due to other governmental entities	192,507
Unearned revenue	3,364
Total current liabilities	<u>424,096</u>
Noncurrent liabilities	
Unearned revenue	36,295
Total noncurrent liabilities	<u>36,295</u>
Total liabilities	<u>460,391</u>
Deferred inflows	
Deferred inflows related to pension	336,452
Deferred inflows related to other post-employment benefits	146,209
Total deferred inflows	<u>482,661</u>
Total liabilities and deferred inflows	<u>943,052</u>

NET POSITION

Net investment in capital assets	36,989,378
Unrestricted	6,514,756
Total net position	<u>\$ 43,504,134</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022

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Operating revenues	
Freight	\$ 1,061,329
Miscellaneous	1,094,908
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Total operating revenues	2,156,237
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Depreciation expense	2,229,231
Other operating expenses	3,225,508
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Total operating expenses	5,454,739
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Operating income (loss)	(3,298,502)
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Nonoperating revenues (expenses)	
Intergovernmental revenue	1,751,480
Investment loss	(74,722)
Payments on behalf	(3,607)
Gain (loss) on disposition of assets	(1,172)
	<hr/>
Total nonoperating revenues (expenses)	1,671,979
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Change in net position	(1,626,523)
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Total net position - beginning	45,130,657
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Total net position - ending	\$ 43,504,134
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The Accompanying Notes Are An Integral Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

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Cash flows from operating activities	
Cash received from customers and government	\$ 2,119,671
Cash paid to and on behalf of employees	(711,205)
Cash paid to suppliers and government	<u>(5,881,473)</u>
Net cash provided (used) by operating activities	<u>(4,473,007)</u>
Cash flows from noncapital financing activities	
Transfers in from State of West Virginia	<u>2,610,292</u>
Net cash provided (used) by noncapital financing activities	<u>2,610,292</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(501,467)</u>
Net cash provided (used) by capital and related financing activities	<u>(501,467)</u>
Cash flows from investing activities	
Income on investments	<u>(74,722)</u>
Net cash provided (used) by investing activities	<u>(74,722)</u>
Increase (decrease) in cash and cash equivalents	(2,438,904)
Cash and cash equivalents, beginning of year	<u>9,212,210</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,773,306</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating loss	\$ (3,298,502)
Adjustments to reconcile operating loss to net cash provided	
(used) by operating activities	
Depreciation	2,229,231
Other post-employment benefits expense - special funding situation	(3,607)
Changes in operating assets and liabilities	
(Increase) decrease in trade receivables	(33,202)
(Increase) decrease in inventories	(1,193)
(Increase) decrease in interest receivable	3,634
(Increase) decrease in deferred outflows	4,096
Increase (decrease) in accounts payable	(2,656,090)
Increase (decrease) in accrued expenses	57,992
Increase (decrease) in compensated absences	14,888
Increase (decrease) in due to other governmental entities	(592,340)
Increase (decrease) in unearned revenue	(3,364)
Increase (decrease) in net other post-employment benefits	(61,654)
Increase (decrease) in net pension liability	(410,902)
Increase (decrease) in deferred inflows	<u>278,006</u>
Net cash provided (used) by operating activities	<u><u>\$ (4,473,007)</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

NOTE 1 - DESCRIPTION OF ORGANIZATION AND FINANCIAL REPORTING ENTITY

In 1975, the West Virginia Legislature created the West Virginia State Rail Authority (the Authority) under the provisions of Chapter 29, Article 18 of the Code of West Virginia, 1931, as amended, known as the "West Virginia Railroad Maintenance Act." The Authority was created to participate in the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State of West Virginia and enable it to remain viable in the public sector as a mode of transportation. The Authority maintains the South Branch Valley Railroad and the West Virginia Central Railroad and is responsible for the rails-to-trails program operation. During fiscal year 2021, the Authority acquired the Buffalo Creek and Gauley Railroad which will be a tourist only railroad. The Secretary of Transportation serves as a member of the Authority, and the remaining six members are appointed by the Governor.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Allowance for Doubtful Accounts - It is the Authority's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectability experienced by the Authority on such balances, and such other factors which, in the Authority's judgment, require consideration in estimating doubtful accounts. As of June 30, 2022, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 11.

Other Post Employment Benefit (OPEB) (Asset) Liability - For purposes of measuring the net OPEB (asset) 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 11 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.

Net Pension (Asset) Liability - For purposes of measuring the net pension (asset) 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022, there was no restricted net position.

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

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

Newly Adopted Statements Issued by GASB - The Authority implemented GASB Statement No. 87, *Leases*, which is effective for fiscal years beginning after June 15, 2021. This Statement requires lessees and lessors to report leases under a single model. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources for each lease. This Statement also requires additional notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The adoption of GASB Statement No. 87 did not have a significant impact on the financial statements.

The Authority implemented GASB Statement No. 92, *Omnibus 2020*, which is effective for fiscal years beginning after June 15, 2021. The requirements of this Statement address a variety of items, including specific provisions regarding the following topics: (1) GASB Statement No. 87 Implementation; (2) intra-entity transfers of assets; (3) postemployment benefits; (4) government acquisitions; (5) risk financing and insurance related activities of public entity risk pools; and (6) fair value measurements and derivative instruments. The adoption of GASB Statement No. 92 did not have a significant impact on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority implemented GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. This Statement removes LIBOR as an appropriate benchmark to coincide with its cessation at the end of calendar year 2021. The new guidance also addresses accounting and financial reporting implications that result from a change or replacement of any interbank offered rate (IBOR) in both hedging derivative instruments and leases. The standard also identifies appropriate benchmark interest rates for hedging derivatives. The adoption of GASB Statement No. 93. did not have a significant impact on the financial statements.

The Authority implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*, parts of which were effective immediately, while other provisions are effective for reporting periods beginning after June 15, 2021. The provisions that were immediately effective required that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan that the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform and limits the applicability of the financial burden criterion in GASB Statement No. 84 to defined benefit pension plans and defined OPEB plans administered through trusts. This Statement also requires that an IRC Section 457 Plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that arrangements under IRC Section 457 should be assessed as a potential fiduciary activity under GASB Statement No. 84. As part of the supersession of GASB Statement No. 32, this Statement also requires that investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The portion of GASB Statement No. 97 that was effective immediately did not have a significant impact on the financial statements. The adoption of the remaining portions of GASB Statement No. 97 did not have a significant impact on the financial statements.

The Authority implemented GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which is effective for fiscal years ending after December 15, 2021. This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The adoption of GASB Statement No. 98 did not have a significant impact on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Statements Issued by GASB - GASB has issued Statement No. 91, *Conduit Debt Obligations*, which is effective for fiscal years beginning after December 15, 2021. The requirements of this Statement eliminate the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity or inconsistency. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The Authority has not yet determined the effect that the adoption of GASB Statement No. 91 may have on its financial statements.

GASB has issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*, which is effective for fiscal years beginning after June 15, 2022. The requirements of this Statement establish the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions, but are outside of the scope of Lease or Service Concession Arrangement Guidance. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will require governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs. The Authority has not yet determined the effect that the adoption of GASB Statement No. 94 may have on its financial statements.

GASB has issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which is effective for fiscal years beginning after June 15, 2022. The requirements of this Statement establish a definition for SBITA, which is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Generally, this Statement will require a government to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. The Statement also establishes guidance for the treatment of costs related to SBITA activities other than subscription payments. Those activities are: Preliminary Project Stage, Initial Implementation Stage, and Operation and Additional Implementation Stage. This Statement also requires a government to disclose essential information about the arrangement such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability. The Authority has not yet determined the effect that the adoption of GASB Statement No. 96 may have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB has issued Statement No. 99, *Omnibus 2022*, with varying effective dates based upon each provision ranging from being effective immediately to fiscal years beginning after June 15, 2023. The requirements of this Statement address a variety of items, including specific provisions regarding the following topics: (1) guidance and terminology updates on reporting derivative instruments that do not meet the definition of either an investment derivative or hedging derivative, but are within the scope of GASB Statement No. 53; (2) clarification of provisions of GASB Statement Nos. 87, 94, and 96; (3) extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate; (4) accounting for Supplemental Nutrition Assistance Program (SNAP) benefits; (5) non-monetary transactions; (6) clarification related to the focus of government-wide financial statements under GASB Statement No. 34; and (7) terminology updates related to GASB Statement No. 63. The provisions effective immediately did not have an impact on the financial statements, and the Authority has not yet determined the effect of the remaining provisions.

GASB has issued Statement No. 100, *Accounting Changes and Error Corrections- an Amendment of GASB Statement No. 62*, which is effective for fiscal years beginning after June 15, 2023. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. Those changes include things like: certain changes in accounting principles, certain changes in estimates that result from a justified or preferable change in measurement or new methodology. This statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods; changes to or within the reporting entity be reported by adjusting beginning balances of the current period; and changes in accounting estimates be reported prospectively by recognizing the change in the current period. If the change in accounting principle is the result of a new pronouncement the requirements only apply absent specific transition guidance in the pronouncement. Under this standard it is also necessary to display the total adjustment to beginning net position, fund balance, or fund net position on the face of the financial statements, by reporting unit. This statement also specifies both qualitative and quantitative disclosure requirements. Lastly, this statement provides guidance for if and how these changes should be reflected in required supplementary information and supplementary information. The Authority has not yet determined the effect that the adoption of GASB Statement No. 100 may have on its financial statements.

GASB has issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. This statement modifies the criteria requiring a liability for compensated absences to be recognized. Under this statement a liability must be recognized for leave that has not been used, or leave that has been used but not yet paid in cash or settled through noncash means. Furthermore, the liability for leave that has not been used is recognized if the leave is attributed to services already rendered, that accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. If the leave is considered more likely than not to be settled through conversion to a defined benefit post-employment benefit it should not be included in the liability for compensated absences. This statement also specifies certain types of benefits where the liability is not recognized until leave commences or where the liability is not recognized until the leave is used. The statement also provides guidance for measuring the liability and modifies the disclosure requirements allowing for disclosure of only the net change in the liability, and no longer requiring disclosure of which governmental funds have been used to liquidate the liabilities. The Authority has not yet determined the effect that the adoption of GASB Statement No. 101 may have on its financial statements.

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS

The composition of cash and cash equivalents were as follows at June 30, 2022:

	Amortized <u>Cost</u>	Estimated <u>Fair Value</u>
Cash on deposit with State Treasurer	\$ 37,190	\$ 37,190
Cash on deposit with State Treasurer invested in BTI (WV Money Market Pool)	4,413,828	4,413,828
Cash on deposit with State Treasurer invested in BTI (WV Short Term Bond Pool)	<u>2,322,288</u>	<u>2,322,288</u>
	<u>\$ 6,773,306</u>	<u>\$ 6,773,306</u>

BTI DISCLOSURE INFORMATION - (In Thousands)

Investments and Deposits

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

WV Money Market Pool - Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2022, 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. Of the Consolidated Fund pools and accounts, seven are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, WV Short Term Bond Pool, WV Bank Pool, Loan Pool, Reserve Pool, and School Fund Account.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor’s (or its equivalent) and short-term corporate debt be rated A-1 or higher by Standard & Poor’s (or its equivalent). As of June 30, 2022, the WV Money Market Pool investment had a total carrying value of \$8,145,595 of which the Authority’s ownership represents .05%.

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

WV Short Term Bond Pool - Credit Risk

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all long-term corporate debt be rated BBB- or higher by Standard & Poor's (or its equivalent) and all short-term corporate debt be rated A-1 or higher 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 following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	S&P Rating	Carrying Value (in Thousands)	Percent of Pool Assets
U.S. Treasury notes *	AA+	\$ 89,910	13.03%
U.S. government agency bonds	AA+	2,403	0.34
U.S. agency collateralized mortgage obligations			
U.S. government guaranteed*	AA+	10,577	1.53
Non-U.S. government guaranteed	AA+	2,732	0.40
Corporate fixed- and floating-rate bonds and notes	AAA	3,421	0.50
	AA+	1,983	0.29
	AA	3,077	0.45
	AA-	22,231	3.22
	A+	57,764	8.37
	A	58,155	8.43
	A-	90,582	13.13
	BBB+	61,433	8.90
	BBB	35,313	5.12
	BBB-	44,896	6.51
	NR	24,283	3.52
Collateralized mortgage obligations	AAA	3,126	0.45
	NR	15,296	2.22
Municipal Securities	AAA	7,713	1.12
	AA+	12,362	1.79
	AA	7,262	1.05
	AA-	2,179	0.32
	A	2,469	0.36
	NR	4,279	0.62
Asset-backed securities	AAA	94,217	13.66
	NR	26,361	3.82
Money market funds	AAAm	5,856	0.85
		<u>\$ 689,880</u>	<u>100.00%</u>

NR = Not Rated

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

At June 30, 2022, the Authority's ownership represents .34% of amounts held by the BTI.

NOTE 3 - 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)
U.S. Treasury notes	\$ 37,503	1
Commercial paper	5,805,709	23
Negotiable certificates of deposit	1,466,500	25
Repurchase agreements	617,400	1
Money market funds	217,659	1
Cash	824	1
	<u>\$ 8,145,595</u>	21

The overall effective duration of the investments of the WV Short Term Bond Pool is limited to a +/- 30 percent band around the effective duration of the portfolio's benchmark (the ICE BofAML 1-3 US Corporate & Government Index). As of June 30, 2022, the effective duration of the benchmark was 686 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury notes	\$ 89,910	816
U.S. government agency bonds	2,403	815
U.S. agency collateralized mortgage obligations	13,309	75
Corporate fixed-rate bonds and notes	369,328	657
Corporate floating-rate bonds and notes	33,810	(19)
Commercialized mortgage-backed securities	18,422	585
Municipal Securities	36,264	433
Asset-backed securities	120,578	474
Money market funds	5,856	-
	<u>\$ 689,880</u>	584

NOTE 3 - CASH INVESTMENTS AND CASH EQUIVALENTS (Continued)

Other Risks of Investing

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk.

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

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

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

Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The WV Money Market Pool contains funds totaling approximately \$824,000 in its' custody account related to a trade failure. The WV Bank Pool contains nonnegotiable certificates of deposit valued at \$20,100,000. The Reserve Pool contains funds totaling approximately \$19,986,000 in a bank depository account. The BTI does not have a deposit policy for custodial credit risk.

WEST VIRGINIA STATE RAIL AUTHORITY
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YEAR ENDED JUNE 30, 2022

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NOTE 4 - CAPITAL ASSETS

Capital assets balances and the activity for the year ended June 30, 2022, is summarized below:

	June 30, 2021			June 30, 2022
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets				
Land	\$ 5,685,216	\$ 31,900	\$ -	\$ 5,717,116
Land improvements	1,031,716	-	-	1,031,716
Buildings and improvements	842,830	137,853	-	980,683
Office equipment	45,325	-	35,721	9,604
Work equipment	2,265,220	-	207,366	2,057,854
Locomotives, freight and passenger cars	4,108,092	-	-	4,108,092
Railroad infrastructure	61,324,423	637,175	-	61,961,598
Leasehold improvements	776,296	-	-	776,296
Construction in progress	910,729	469,565	775,028	605,266
Total capital assets	<u>\$ 76,989,847</u>	<u>\$ 1,276,493</u>	<u>\$ 1,018,115</u>	<u>\$ 77,248,225</u>
Accumulated depreciation				
Land improvements	\$ 412,891	\$ 59,137	\$ -	\$ 472,028
Buildings and improvements	491,205	16,850	-	508,055
Office equipment	45,325	-	35,721	9,604
Work equipment	1,858,298	76,803	206,196	1,728,905
Locomotives, freight and passenger cars	2,569,362	142,131	-	2,711,493
Railroad infrastructure	32,800,744	1,910,420	-	34,711,164
Leasehold improvements	93,708	23,890	-	117,598
Total accumulated depreciation	<u>\$ 38,271,533</u>	<u>\$ 2,229,231</u>	<u>\$ 241,917</u>	<u>\$ 40,258,847</u>

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

The Authority enters into certain transactions with various agencies of the State of West Virginia. The following summarizes the nature and terms of the most significant transactions.

The Authority's employees participate in various benefit plans offered by the State of West Virginia. Employer contributions to these plans are mandatory. During the year ended June 30, 2022, the Authority incurred payroll related expenditures of approximately \$73,055 for employee health insurance benefits provided through the West Virginia Public Employees Insurance Agency and approximately \$45,353 in employer matching contributions to the State Public Retirement System. The Authority also paid the West Virginia Department of Highways approximately \$188,418 for bridge inspections, engineering services, labor and materials. In addition, during the year ended June 30, 2022, the Authority received transfers of \$1,554,408 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, 2022, the Authority had amounts due from the State of West Virginia of \$197,072. The Office of the Secretary of Administration, Finance Division transferred \$1,554,408 to the Authority for the year ended June 30, 2022.

NOTE 6 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the year ended June 30, 2022, approximately 84% of the Authority's freight traffic was attributable to a single customer. A significant decrease in this revenue or assistance would have a significant effect on the operations of the Authority.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM) and the West Virginia Public Employees Insurance Agency (PEIA) public entity risk pools to account for and finance uninsured risks of losses for state agencies, institutions of higher education, and component units.

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

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

The Authority has obtained coverage for job related injuries through the purchase of a worker's compensation insurance policy from American Zurich Insurance Company. In exchange for premiums, the Authority transfers its risk of loss related to employee injuries to American Zurich Insurance Company.

NOTE 8 - 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 at www.wvretirement.com.

NOTE 8 - RETIREMENT PLAN (Continued)

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

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

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

Contributions - While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 10.0% for the years ended June 30, 2022, 2021, and 2020, respectively. 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 \$45,353, \$47,134, and \$46,017 for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

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

At June 30, 2022, the Authority reported an asset of \$259,851 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2020, rolled forward to the measurement date of June 30, 2021. The Authority's proportion of the net pension asset 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, 2021, the Authority's proportionate share was 0.03%, which was consistent with its proportionate share measured as of June 30, 2020.

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YEAR ENDED JUNE 30, 2022

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NOTE 8 - RETIREMENT PLAN (Continued)

For the year ended June 30, 2022, the Authority recognized pension expense of \$(51,944). At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 332,827
Differences between expected and actual experience	29,629	985
Changes of assumptions	49,441	2,106
Changes in proportion and differences between Authority contributions and proportionate share of contributions	4,303	534
Authority contributions subsequent to the measurement date	<u>45,353</u>	<u>-</u>
Total	<u>\$ 128,726</u>	<u>\$ 336,452</u>

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 an increase of the net pension asset in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2023	\$ (35,358)
2024	(39,179)
2025	(80,688)
2026	<u>(97,827)</u>
	<u>\$ (253,052)</u>

Actuarial assumptions and methods - The total pension asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.75%
Salary increases	2.75% – 6.75%, average, including inflation
Investment rate of return	7.25%, net of pension plan investment expense

Mortality rates were based on 100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018 for active members; 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy males; 122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy females, 118% of Pub-2010 General/Teachers Disabled Male table, headcount weighted, projected with scale MP-2018 for disabled males, and 117% of Pub-2010 General/Teachers Disabled Female table, headcount weighted, projected with scale MP-2018 for disabled females.

NOTE 8 - RETIREMENT PLAN (Continued)

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2018.

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. The target allocation and best estimates of long-term geometric rates of return are summarized in the following table:

June 30, 2021			
Asset Class	Long-term Expected Real Rate of Return	Target Allocation	Weighted Average Expected Real Rate of Return
Domestic equity	5.5%	27.5%	1.51%
International equity	7.0%	27.5%	1.93%
Fixed income	2.2%	15.0%	0.33%
Real estate	6.6%	10.0%	0.66%
Private equity	8.5%	10.0%	0.85%
Hedge funds	4.0%	10.0%	0.40%
Total		100.0%	5.68%
Inflation (CPI)			2.10%
			7.78%

Discount rate - The discount rate used to measure the total pension asset was 7.25%. 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 follow the current funding policies. 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 asset. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

NOTE 8 - RETIREMENT PLAN (Continued)

Sensitivity of the Authority's proportionate share of the net pension asset to changes in the discount rate

- The following table presents the Authority's proportionate share of the net pension asset calculated using the current discount rate of 7.25% as well as what the Authority's proportionate share of the net pension asset 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:

	1% Decrease	Total Net Pension Liability	1% Increase
	6.25%	Discount Rate	8.25%
		7.25%	
PERS	\$ (2,969)	\$ 259,851	\$ 481,685

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 9 - NONCURRENT LIABILITIES

The following is a summary the net pension (asset) liability and the net OPEB liability (asset) for the Authority for the year ended June 30, 2022:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion
OPEB (asset) liability	\$ 57,714	\$ 43,814	\$ (105,468)	\$ (3,940)	\$ -
Net pension (asset) liability	<u>151,051</u>	<u>10,533</u>	<u>(421,435)</u>	<u>(259,851)</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 208,765</u>	<u>\$ 54,347</u>	<u>\$ (526,973)</u>	<u>\$ (263,791)</u>	<u>\$ -</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Periodic Audits

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

Litigation

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

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

As related to the implementation of GASB 75, following are the Authority's net OPEB asset, 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, 2022:

	<u>2022</u>
Net OPEB asset	\$ 3,940
Deferred outflows of resources	17,115
Deferred inflows of resources	146,209
Revenues	(3,607)
OPEB expense	(82,699)
Contributions made by Authority	14,163

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.

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 Annual Comprehensive 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 at www.peia.wv.gov.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

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, 2021 were:

	<u>2021</u>
Paygo premium	<u>\$ 160</u>

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, 2022, 2021, and 2020, were \$14,163, \$24,161, and \$25,256, respectively.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The total OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2020 and a measurement date of June 30, 2021. 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, 20-year closed period.
- Investment rate of return: 6.65%, net of OPEB plan investment expense, including inflation.
- Healthcare cost trend rates: Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2020, decreasing by 0.50% for one year then by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2032. Trend rate for Medicare per capita costs of (31.11%) for plan year end 2022. 9.15% for plan year end 2023, decreasing ratably each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036.
- Projected salary increases: Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation.
- Inflation rate: 2.25%.
- Mortality: based on PUB-2010 Mortality Tables

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2015 to June 30, 2020. These assumptions will remain in effect for valuation purposes until such time as RHBT adopts revised assumptions.

The long-term expected rate of return of 6.65% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.00% for long-term assets invested with the WV Investment Management Board and an expected short-term rate of return of 2.50% for assets invested with the BTI.

Long-term pre-funding assets are invested with the West Virginia Investment Management Board ("WVIMB"). The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the West Virginia Board of Treasury Investments ("WVBTI").

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 rates of return 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 rates of return by the target asset allocation percentage. Target asset allocations, capital market assumptions (CMA), and forecast returns were provided by the plan's investment advisors, including the West Virginia Investment Management Board (WV-IMB). The projected nominal return for the Money Market Pool held with the BTI was estimated based on the WV-IMB assumed inflation of 2.0% plus a 25 basis point spread.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The target allocation and estimates of annualized long-term expected returns assuming a 10-year horizon are summarized below:

Asset Class	Target Allocation	Long-term Expected Real Return
Global equity	55%	4.8%
Core plus fixed income	15%	2.1%
Core real estate	10%	4.1%
Hedge fund	10%	2.4%
Private equity	10%	6.8%

Single discount rate - A single discount rate of 6.65% was used to measure the total OPEB liability. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.65%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made in accordance with the prefunding and investment policies. Based on these assumptions, 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 (asset) liability to changes in the discount rate - The following presents Authority's proportionate share of the net OPEB (asset) liability as of June 30, 2022 calculated using the discount rate of 6.65%, as well as what Authority's net OPEB (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (5.65%) or one percentage point higher (7.65%) than the current rate.

	1% Decrease (5.65%)	Current Discount Rate (6.65%)	1% Increase (7.65%)
Net OPEB (asset) liability	\$ 21,140	\$ (3,940)	\$ (24,763)

Sensitivity of the net OPEB (asset) liability to changes in the healthcare cost trend rate - The following presents the Authority's proportionate share of the net OPEB (asset) liability as of June 30, 2022 calculated using the healthcare cost trend rate, as well as what Authority's net OPEB (asset) 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 (asset) liability	\$ (29,088)	\$ (3,940)	\$ 26,694

OPEB (Assets) Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB - The June 30, 2022 net OPEB (asset) liability was measured as of June 30, 2021, and the total OPEB (asset) liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to the measurement date of June 30, 2021.

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

At June 30, 2022, the Authority's proportionate share of the net OPEB (asset) liability was \$(4,716). Of this amount, the Authority recognized \$(3,940) as its proportionate share on the statement of net position. The remainder of \$(776) denotes the Authority's proportionate share of net OPEB (asset) 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, 2021 and 2020. Employer contributions are recognized when due. At the June 30, 2021 measurement date, the Authority's proportion was 0.013%, which was consistent with its proportionate share calculated as of June 30, 2020.

For the year ended June 30, 2022, the Authority recognized OPEB expense of \$(82,699). Of this amount, \$(79,092) was recognized as the Authority's proportionate share of OPEB expense and \$(3,607) as the amount of OPEB expense attributable to special funding from a non-employer contributing entity. The Authority also recognized revenue of \$(3,607) for support provided by the State.

At June 30, 2022, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows.

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual non-investment experience	\$ -	\$ 27,138
Changes in proportion and difference between employer contributions and proportionate share of contributions	2,952	7,094
Net difference between projected and actual investment earnings	-	27,188
Changes in assumptions	-	83,363
Reallocation of opt-out employer change in proportionate share	-	1,426
Contributions after the measurement date	<u>14,163</u>	<u>-</u>
Total	<u>\$ 17,115</u>	<u>\$ 146,209</u>

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

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NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The Authority will recognize the \$14,163 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB (asset) liability in the year ended June 30, 2022. 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:	
2023	\$ (78,823)
2024	(48,128)
2025	(8,407)
2026	(7,899)
	<u>\$ (143,257)</u>

Payables to the OPEB Plan - The Authority did not report any amounts payable for normal contributions to the OPEB plan as of June 30, 2022.

NOTE 12 - SUBSEQUENT EVENTS

In February 2022, House Bill 4492 was introduced to the West Virginia Legislature with the intent to create the West Virginia Division of Multimodal Transportation. This combines the powers and duties of the Public Port Authority, the West Virginia State Rail Authority and the state Aeronautics Commission. This house bill was passed and was set to take effect July 1, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
June 30, 2022

Public Employees Retirement System
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportion of the net pension liability (asset) (percentage)	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.04%	
Authority's proportionate share of the net pension liability (asset)	\$ (259,851)	\$ 151,051	\$ 59,129	\$ 73,609	\$ 133,714	\$ 286,159	\$ 176,825	\$ 119,170	\$ 327,949	
Authority's covered payroll	\$ 471,340	\$ 460,170	\$ 399,790	\$ 372,036	\$ 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	-55.13%	32.83%	14.79%	19.79%	31.44%	57.19%	41.39%	27.56%	68.11%	
Plan fiduciary net position as a percentage of the total pension liability	111.07%	92.89%	96.99%	96.33%	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. (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, governments should present information for those years for which information is available.

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2022

Public Employees Retirement System
Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 45,353	\$ 47,134	\$ 46,017	\$ 39,979	\$ 40,924	\$ 51,041	\$ 67,545	\$ 59,811	\$ 62,697	\$ 67,408
Contributions in relation to the contractually required contribution	<u>(45,353)</u>	<u>(47,134)</u>	<u>(46,017)</u>	<u>(39,979)</u>	<u>(40,924)</u>	<u>(51,041)</u>	<u>(67,545)</u>	<u>(59,811)</u>	<u>(62,697)</u>	<u>(67,408)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 453,530	\$ 471,340	\$ 460,170	\$ 399,790	\$ 372,036	\$ 425,342	\$ 500,333	\$ 427,221	\$ 432,393	\$ 481,486
Contributions as a percentage of covered payroll	10.00%	10.00%	10.00%	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

WEST VIRGINIA STATE RAIL AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY (ASSET)
June 30, 2022

Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportion of the net OPEB liability (asset) (percentage)	0.01%	0.01%	0.01%	0.01%	0.01%					
Authority's proportionate share of the net OPEB liability (asset)	\$ (3,940)	\$ 57,714	\$ 215,400	\$ 296,792	\$ 351,600					
State's proportionate share of the net OPEB liability (asset)	<u>(776)</u>	<u>12,761</u>	<u>44,080</u>	<u>61,339</u>	<u>72,219</u>					
Total proportionate share of the net OPEB liability (asset)	\$ (4,716)	\$ 70,475	\$ 259,480	\$ 358,131	\$ 423,819					
Authority's covered-employee payroll	\$ 562,966	\$ 542,799	\$ 465,064	\$ 401,209	\$ 431,873					
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	-0.70%	10.63%	46.32%	73.97%	81.41%					
Plan fiduciary net position as a percentage of the total OPEB liability	101.81%	73.49%	39.69%	30.98%	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, 2022

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 14,163	\$ 24,161	\$ 25,256	\$ 26,748	\$ 28,269	\$ 29,369				
Contributions in relation to the statutorily required contribution	<u>(14,163)</u>	<u>(24,161)</u>	<u>(25,256)</u>	<u>(26,748)</u>	<u>(28,269)</u>	<u>(29,369)</u>				
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
Authority's covered-employee payroll	\$ 578,501	\$ 562,966	\$ 542,799	\$ 465,064	\$ 401,209	\$ 431,873				
Contributions as a percentage of covered-employee payroll	2.45%	4.29%	4.65%	5.75%	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, 2022

Actuarial Changes Pension

An experience study, which was based on the years 2015 through 2020 (economic assumptions), 2013 through 2018 (all other assumptions), was approved by the Consolidated Public Retirement Board. As a result, valuation assumptions were changed as of June 30, 2020 to reflect the most recent experience study:

	Projected Salary Increases			Mortality Rates	Withdrawal Rates		
	State	Nonstate	Inflation rate		State	Nonstate	Disability Rates
<u>2021</u>	2.75% - 5.55%	3.60% - 6.75%	2.75%	Active-100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy females-122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018; Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected with scale MP-2018; Disabled females-117% of Pub-2010 General / Disabled Teachers Disabled Female table, headcount weighted, projected with scale MP-2018	2.28-45.63%	2.50-35.88%	0.005-0.540%
<u>2020</u>	3.1% - 5.3%	3.35% - 6.5%	3.00%	Active-100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy females-122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018; Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected with scale MP-2018; Disabled females-117% of Pub-2010 General / Disabled Teachers Disabled Female table, headcount weighted, projected with scale MP-2018	2.28-45.63%	2-35.88%	0.005-0.540%
<u>2019</u>	3.1% - 5.3%	3.35% - 6.0%	3.00%	Active-100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018; Retired healthy females-122% of Pub-2010 Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018; Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018; Disabled females-118% of Pub-2010 General / Disabled Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018	2.28-45.63%	2-35.88%	0.005-0.540%
<u>2018</u>	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%
<u>2017</u>	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%

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022

	Projected Salary Increases			Mortality Rates	Withdrawal Rates		
	State	Nonstate	Inflation rate		State	Nonstate	Disability Rates
<u>2016</u>	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%
<u>2015</u>	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%
<u>2014</u>	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%

WEST VIRGINIA STATE RAIL AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022

Actuarial Changes Other Postemployment Benefits Plan

The actuarial assumptions used in the total OPEB liability calculation can change from year to year. Please see table below which summarizes the actuarial assumptions used for the respective measurement dates.

	Inflation Rate	Salary Increases	Wage Inflation Rate	Investment Rate of Return & Discount Rate	Mortality	Retirement Age	Aging Factors	Expenses	Healthcare Cost Trend Rates
<u>2021</u>	2.25%	Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation	2.75%	6.65%, net of OPEB plan investment expense, including inflation	Post-Retirement: Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females; Pre-Retirement: Pub-2010 Below-Median Income General Employee Mortality Tables projected with MP-2019	Rates based on 2015-2020 OPEB experience study and vary by pension plan participation and age/service of retirement.	2013 SOA study "Health Care Costs - From Birth to Death"	Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of annual expense.	Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2020, decreasing by 0.50% for one year then by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2032. Trend rate for Medicare per capita costs of (31.11%) for plan year end 2022. 9.15% for plan year end 2023, decreasing ratably each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036.
<u>2020</u>	2.25%	Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation	2.75%	6.65%, net of OPEB plan investment expense, including inflation	Post-Retirement: Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females; Pre-Retirement: Pub-2010 Below-Median Income General Employee Mortality Tables projected with MP-2019	Experience-based table of rates that are specific to the type of eligibility condition	2013 SOA study "Health Care Costs - From Birth to Death"	Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of annual expense.	Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2020, decreasing by 0.50% for one year then by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year 2032. Trend rate for Medicare per capita costs of 31.11% for plan year end 2022, 9.15% for plan year end 2023, 8.40% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036.
<u>2019</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%, including inflation	4.00%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis Pre-Retirement: RP– 2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis	Experience-based table of rates that are specific to the type of eligibility condition	2013 SOA study "Health Care Costs - From Birth to Death"	Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of annual expense.	Trend rate for pre-Medicare per capita costs of 8.5% for plan year end 2020, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year 2028. Trend rate for Medicare per capita costs of 3.1% for plan year end 2020. 9.5% for plan year end 2021, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year end 2031.
<u>2018</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%, including inflation	4.00%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis Pre-Retirement: RP– 2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis	Experience-based table of rates that are specific to the type of eligibility condition.	2013 SOA study "Health Care Costs - From Birth to Death"	Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of annual expense.	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.0% and 10.0% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend rate of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
<u>2017</u>	2.75%	Dependent upon pension system. Ranging from 3.0% to 6.5%, including inflation	4.00%	7.15%, net of OPEB plan investment expense, including inflation	Post-Retirement: RP – 2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis Pre-Retirement: RP– 2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis	Experience-based table of rates that are specific to the type of eligibility condition.	2013 SOA study "Health Care Costs - From Birth to Death"	Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of annual expense.	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.5% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend rate 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 costs beginning in 2020 to account for the Excise Tax.

ADDITIONAL INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2022, 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 3, 2022. Our report also includes an emphasis of matter paragraph noting that 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, 2022, 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.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 financial statements. 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.

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

Charleston, West Virginia
October 3, 2022