

WEST VIRGINIA STATE RAIL AUTHORITY  
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA  
AND THE WEST VIRGINIA DEPARTMENT OF TRANSPORTATION  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001  
AND  
INDEPENDENT AUDITORS' REPORTS

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the West Virginia State Rail Authority (the Authority), a component unit of the West Virginia Department of Transportation and the State of West Virginia, as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.

*Suttle & Stalnaker, PLLC*

August 30, 2002

This section of the West Virginia State Rail Authority's (Authority) financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2002. Please read it in conjunction with the Authority's basic financial statements which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Authority's net assets increased \$1,986,611 as a result of this year's operations. This was primarily due to an additional appropriation of one million dollars from the Legislature of the State of West Virginia.
- The Authority's total operating expenses were \$3,352,533 for the fiscal year ended June 30, 2002 compared to \$3,806,414 for the fiscal year ended June 30, 2001 which was a decrease of \$453,881.
- The nonoperating revenues or (expenses) were (\$356,891) in the fiscal year ended June 30, 2002 compared to nonoperating revenues of \$2,071,971 in the fiscal year ended June 30, 2001. All of loss shown in the fiscal year ended June 30, 2002, can be attributed to the sale of the Wheeling Terminal Line. This sale resulted in a net loss. Eliminating the potential liability resulting from maintaining ownership of these assets was in the best interest of the Authority, justifying the resulting loss. The nonoperating revenue shown in the fiscal year ended June 30, 2001 can be attributed to significant Federal rehabilitation assistance, which was \$1,979,559 more than the fiscal year ended June 30, 2001 compared to the fiscal year ended June 30, 2002.
- The Authority completed approximately \$1.65 million dollars in capital improvements on the South Branch Valley Railroad (SBVR). This included upgrading and strengthening all bridges and replacing five miles of light weight rail with heavier continuous welded rail.
- Three of the SBVR's locomotives were upgraded utilizing funds awarded to the Authority from the Governor's contingency fund.
- All current federal projects were finished during the fiscal year ended June 30, 2002. This included \$100,279 of a \$900,000 grant to finish all bridge repairs on the SBVR and \$186,767 of a \$2,000,000 grant to complete the flood damage repair on the West Virginia Central Railroad (WVCR).
- Numerous maintenance projects were completed on the WVCR which included installing new signals at Poe Run Crossing, replacing a grade crossing at 11<sup>th</sup> Street in Elkins, performing culvert repair and beginning a tie replacement program. These projects amounted to over \$130,000.

## **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

The basic financial statements include the statements of net assets; statements of revenues, expenses, and changes in net assets; statements of cash flows; and notes to the financial statements. The notes to the financial statements provide more detailed data concerning the financial condition of the Authority.

## **FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

The Authority's fiscal year June 30, 2002 budget consisted of funds received from the State of West Virginia General Fund, the Federal Railroad Administration's Grant Programs, the State of West Virginia Governor's Contingency Fund, revenues earned from operating the SBVR, revenues received from the operator of the WVCR per the specifications of the operating agreement, and other miscellaneous revenues received from leases and licenses on our railroad right-of-ways.

The Authority's net assets changed from a year ago, increasing from \$31,532,430 to \$33,519,041. The following tables summarize the financial position and changes in financial position for the years ended June 30, 2002 and 2001.

Table 1 - Statement of Net Assets

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Cash and cash equivalents	\$ 944,054	\$ 1,098,948	\$ (154,894)	-14.09%
Trade receivables	41,255	36,226	5,029	13.88%
Inventories	91,065	124,945	(33,880)	-27.12%
Due from other governmental entities	1,233,736	189,564	1,044,172	550.83%
Other current assets	<u>11,683</u>	<u>11,444</u>	<u>239</u>	2.09%
Total current assets	<u>2,321,793</u>	<u>1,461,127</u>	<u>860,666</u>	58.90%
Non current assets				
Capital assets	47,403,094	46,369,321	1,033,773	2.23%
Accumulated depreciation	<u>(12,948,087)</u>	<u>(12,548,925)</u>	<u>(399,162)</u>	3.18%
Total non-current assets	<u>34,455,007</u>	<u>33,820,396</u>	<u>634,611</u>	1.88%
Total assets	<u>36,776,800</u>	<u>35,281,523</u>	<u>1,495,277</u>	4.24%
Current liabilities	1,199,169	1,401,784	(202,615)	-14.45%
Long-term debt	1,921,670	2,238,336	(316,666)	-14.15%
Other non-current liabilities	<u>136,920</u>	<u>108,973</u>	<u>27,947</u>	25.65%
Total liabilities	<u>3,257,759</u>	<u>3,749,093</u>	<u>(491,334)</u>	-13.11%
Net assets				
Invested in capital assets not debt related	32,216,671	31,285,393	931,278	2.98%
Unrestricted	<u>1,302,370</u>	<u>247,037</u>	<u>1,055,333</u>	427.20%
Total net assets	<u>\$ 33,519,041</u>	<u>\$ 31,532,430</u>	<u>\$ 1,986,611</u>	6.30%

WEST VIRGINIA STATE RAIL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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Table 2 - Statements of Revenues

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating revenues				
Freight	\$ 1,538,689	\$ 1,494,192	\$ 44,497	2.98%
Miscellaneous	<u>162,265</u>	<u>86,262</u>	<u>76,003</u>	88.11%
Total operating revenues	<u>1,700,954</u>	<u>1,580,454</u>	<u>120,500</u>	7.62%
Depreciation expense	1,298,641	1,196,802	101,839	8.51%
Other operating expenses	<u>2,053,892</u>	<u>2,609,612</u>	<u>(555,720)</u>	-21.30%
Total operating expenses	<u>3,352,533</u>	<u>3,806,414</u>	<u>(453,881)</u>	-11.92%
Operating income (loss)	<u>(1,651,579)</u>	<u>(2,225,960)</u>	<u>574,381</u>	-25.80%
Nonoperating revenues (expenses)				
Interest income	13,563	34,476	(20,913)	-60.66%
Interest expense	(154,083)	(181,592)	27,509	-15.15%
Federal railroad rehabilitation assistance	287,046	2,266,605	(1,979,559)	-87.33%
Gain (loss) on sale of assets	(515,179)	(49,437)	(465,742)	942.09%
Other	<u>11,762</u>	<u>1,919</u>	<u>9,843</u>	512.92%
Total nonoperating revenues (expenses)	<u>(356,891)</u>	<u>2,071,971</u>	<u>(2,428,862)</u>	-117.22%
Income (loss) before operating transfers	(2,008,470)	(153,989)	(1,854,481)	1,204.29%
Transfers in	<u>3,995,081</u>	<u>2,637,190</u>	<u>1,357,891</u>	51.49%
Change in net assets	1,986,611	2,483,201	(496,590)	-20.00%
Total net assets - beginning	<u>31,532,430</u>	<u>29,049,229</u>	<u>2,483,201</u>	8.55%
Total net assets - ending	<u>\$ 33,519,041</u>	<u>\$ 31,532,430</u>	<u>\$ 1,986,611</u>	6.30%

The Authority received \$2.6 million from the general fund appropriations from the State of West Virginia at the beginning of fiscal year 2002. This money was used for the capital improvement projects on the SBVR, numerous maintenance projects on the WVCR, wages/benefits and office expenses for the operations of the Authority and upkeep of the Maryland Rail Commuter train (MARC) commuter train stations in the eastern panhandle. The change in net assets is attributable to the increase in general fund appropriation dollars received. This allowed the Authority to continue a rehabilitation program on the SBVR. The projects performed under this program increased our assets. Also, an additional \$1 million dollars was awarded in May 2002 from unclassified surplus funds of the State of West Virginia. Because it was too late during the current fiscal year to put this funding toward a capital improvement project, the money has been reappropriated to fiscal year 2003 and booked as unrestricted net assets.

The Authority earned approximately \$1.5 million dollars from the operations of the SBVR and approximately \$162,000 from miscellaneous operating revenues. This revenue is used to pay the operating expenses of the SBVR. These revenues increased slightly in the fiscal year ended June 30, 2002.

The Authority also received \$287,046 from federal grants. This funding was for the finalization of federal programs that were started in prior years. These programs were completed in the fiscal year ended June 30, 2002. The significant difference in federal funding from one year to the next is a direct result of the amount of the project that was completed in the year ended June 30, 2001 versus the year ended June 30, 2002. The federal funds were for the same two projects (SBVR bridge repair & WVCRR flood repair). No new federal programs have been available. \$340,000 was awarded from the Governor's Contingency Fund in the fiscal year ended June 30, 2001 but not expended until the fiscal year ended June 30, 2002. These funds were used toward capital improvement programs and upgrades of equipment.

Operating expenses declined by \$453,881 from the fiscal year ended June 30, 2001 to the fiscal year ended June 30, 2002 and with the increase in revenues in the fiscal year ended June 30, 2002 the overall operating loss declined by \$574,382.

The large decline in Federal rehabilitation assistance from the fiscal year ended June 30, 2001 to the fiscal year ended June 30, 2002 resulted in an increase of \$1,854,481 in the overall loss before transfers. However, the increase in the change in net assets of \$1,986,611 resulted primarily from transfers from the General Fund and the Governor's Contingency Fund which were utilized toward capital improvements. As a result, the Authority's overall financial condition improved with an increase in net assets.

Chart 1 - Funding Breakdown - Year Ended June 30, 2002

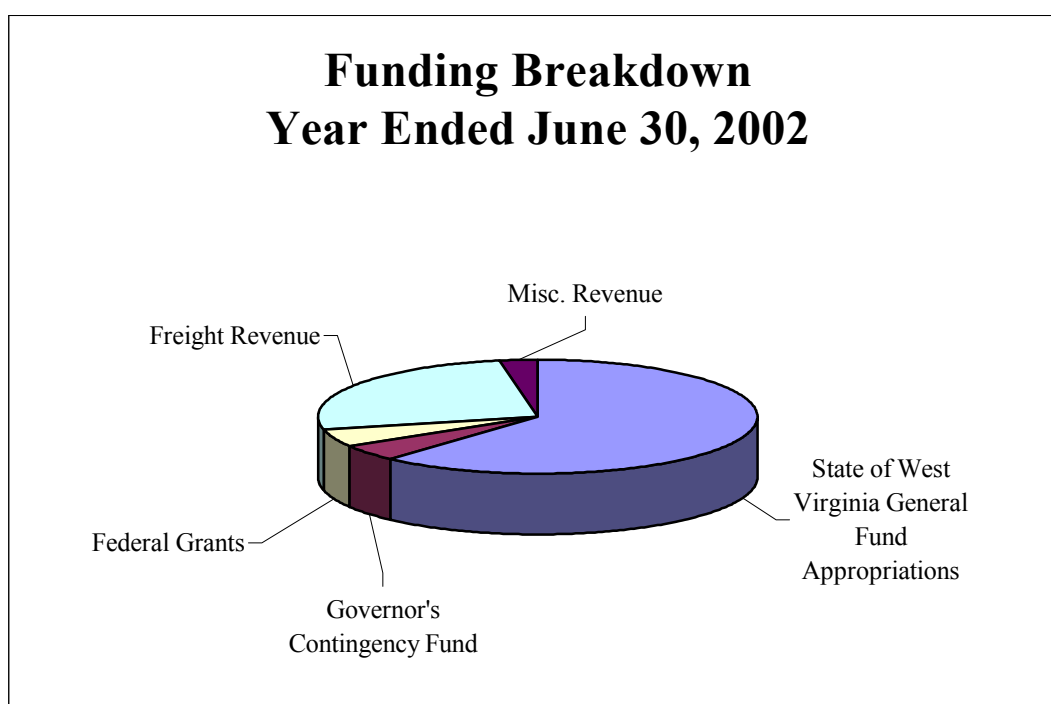
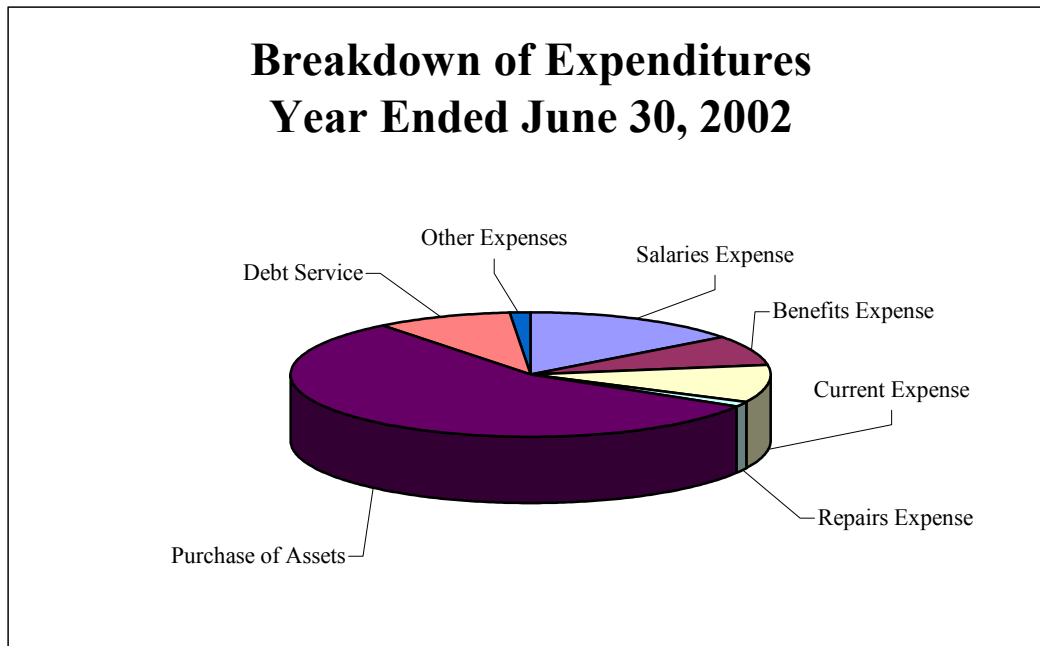




Chart 2 - Expenditure Breakdown - Year Ended June 30, 2002



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

At the end of the year ended June 30, 2002, the Authority had invested \$47,403,094 in a broad range of capital assets (see table below). This amount represents an increase of \$1,033,774 or 2.2%, over the previous year.

TABLE 3

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 4,872,621	\$ -	\$ 82,033	\$ 4,790,588
Rail properties	40,168,853	2,407,099	1,362,625	41,213,327
Transportation and other equipment	830,966	68,466	-	899,432
Office building and equipment	496,881	2,866	-	499,747
Total	<u>\$ 46,369,321</u>	<u>\$ 2,478,431</u>	<u>\$ 1,444,658</u>	<u>\$ 47,403,094</u>

This year's major capital asset additions were in the rail properties category.

- A total of \$2,407,099 was added to the rail properties category however, \$1,444,658 in the rail properties and land categories was deleted as a result of the sale of the Wheeling Terminal Line. The original cost of the Wheeling Terminal Line was approximately \$1,444,000. Total related accumulated depreciation was approximately \$900,000. The Authority received only \$30,000 from the sale of the property, resulting in a loss of approximately \$515,000. No rail traffic was being moved on this line and there was no opportunity for future use due to the abandonment of connecting rail lines. A trestle and tunnel were potential hazards that posed future liability issues for the State of West Virginia and the Authority. Eliminating the responsibility and potential liability resulting from maintaining ownership of these assets was in the best interest of the Authority, justifying the resulting loss.
- 5.8 miles of continuous welded rail was installed on the SBVR at a cost of \$1,121,171.
- All SBVR bridges were strengthened and repaired at a cost of \$628,964.
- Three locomotives on the SBVR were upgraded at a cost of \$383,363.
- Flood repairs were completed on the West Virginia Central Railroad at a cost of \$186,767.
- A tie renewal project was started on the WVCR at a cost of \$68,389.

Capital assets in the equipment category increased by 7.6% from prior year.

- The Authority purchased sixteen pieces of used equipment from the Equipment Division of the West Virginia Department of Transportation, Division of Highways at a cost of \$39,400.
- New hy-rail equipment was added to a dump truck at a cost of \$23,350.

### **LONG TERM DEBT**

With the 1992 expansion of the Wampler-Longacre feedmill in Hardy County, the traffic on the SBVR doubled. The increase in traffic required the SBVR to replace over 11 miles of rail, resurface 42 miles of track, build a 40-car siding at the Wampler feedmill in Moorefield, rebuild two grade crossings and replace one bridge. To enable all of these improvements the Authority sold \$4 million dollars of Commercial Development Revenue Bonds. The debt schedule on these bonds runs from July 1993 through June 2007. In year ended June 30, 2002, \$434,083 was paid from the revenues received from the operation of the SBVR toward this debt. The following table shows the schedule for the remaining debt all of which will be paid from the freight revenue.

Table 4 - Debt Schedule

Year ending June 30	2003	2004	2005	2006	2007	2008
	\$444,020	\$442,620	\$444,173	\$456,925	\$455,285	\$456,450

The rehabilitation of the SBVR is planned to be completed in June of 2006. This will result in much lower requests for funding from the State of West Virginia. In addition, as can be seen on Table 4 the bond debt will be paid off in July of 2007. This will enhance the cash flow of \$450,000 a year that will be used toward the operation of the SBVR.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In the fiscal year ended June 30, 2002, an area outbreak of Avian Flu affected chicken farms in nearby Harrisonburg, Virginia and caused much concern for the Authority. With the poultry industry being one of the largest employers in the area, the potential dangers of this flu brought much concern to the farmers and businesses in the valley. The Pilgrim's Pride feedmill accounts for 96% of all business on the SBVR; thus the potential effect could have been detrimental to the Authority. Fortunately, this virus was contained and to date only one local farm showed any signs of the virus. This farm was quarantined immediately and no massive effects were experienced. This virus, though potentially damaging, had no effect on the year ended June 30, 2002 carloadings. The actual number of cars handled on the SBVR increased by over 100 cars from the year ended June 30, 2001 to the year ended June 30, 2002.

The Authority's year ended June 30, 2003 budget includes \$3,577,394 from the State of West Virginia and \$1,760,732 from freight revenue. This funding will be used to continue the long-term rehabilitation projects started on the SBVR in year ended June 30, 2000. To date, much progress has been made on the SBVR track structure. By December 31, 2002, the SBVR will be able to haul 286,000 pound cars. These cars are becoming the rail industry standard. The SBVR will be one of the few shortlines in the nation that are able to carry these heavier cars.

In addition to continuing the rehabilitation program on the SBVR, the fiscal year June 30, 2003 budget will allow the Authority to continue to maintain the WVCRR. This railroad has completed three years of operations and continues to be a strong economic factor to the areas that it serves.

As part of the Authority's responsibilities, we will continue to maintain station facilities at Harpers Ferry, Duffields and Martinsburg for MARC train service. This offers West Virginia citizens in the eastern panhandle the advantage of using commuter train service to Washington, DC.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority at 120 Water Plant Drive, Moorefield, West Virginia, 28636.

WEST VIRGINIA STATE RAIL AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2002 AND 2001

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ASSETS	2002	2001 (Restated)
Current assets		
Cash and cash equivalents	\$ 438,857	\$ 609,811
Restricted cash and cash equivalents	505,197	489,137
	<u>944,054</u>	<u>1,098,948</u>
Trade receivables	41,255	36,226
Inventories	91,065	124,945
Due from other governmental entities	1,233,736	189,564
Other current assets	11,683	11,444
Total current assets	<u>2,321,793</u>	<u>1,461,127</u>
Noncurrent assets		
Capital assets	47,403,094	46,369,321
Accumulated depreciation	(12,948,087)	(12,548,925)
Total noncurrent assets	<u>34,455,007</u>	<u>33,820,396</u>
Total assets	<u>36,776,800</u>	<u>35,281,523</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	280,063	151,207
Accrued expenses	117,950	128,903
Compensated absences	62,529	62,923
Deferred revenue	367	340,367
Due to other governmental entities	421,594	421,718
Current maturities of long-term debt	316,666	296,666
Total current liabilities	<u>1,199,169</u>	<u>1,401,784</u>
Noncurrent liabilities		
Long-term debt	1,921,670	2,238,336
Compensated absences	136,920	108,973
Total noncurrent liabilities	<u>2,058,590</u>	<u>2,347,309</u>
Total liabilities	<u>3,257,759</u>	<u>3,749,093</u>
 NET ASSETS		
Invested in capital assets, net of related debt	32,216,671	31,285,394
Unrestricted	1,302,370	247,036
Total net assets	<u>\$ 33,519,041</u>	<u>\$ 31,532,430</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
YEARS ENDED JUNE 30, 2002 AND 2001

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	2002	2001
		(Restated)
Operating revenues		
Freight	\$ 1,538,689	\$ 1,494,192
Miscellaneous	162,265	86,262
Total operating revenues	<u>1,700,954</u>	<u>1,580,454</u>
Depreciation expense	1,298,641	1,196,802
Other operating expenses	2,053,892	2,609,612
Total operating expenses	<u>3,352,533</u>	<u>3,806,414</u>
Operating income (loss)	<u>(1,651,579)</u>	<u>(2,225,960)</u>
Nonoperating revenues (expenses)		
Interest income	13,563	34,476
Interest expense	(154,083)	(181,592)
Federal railroad rehabilitation assistance	287,046	2,266,605
Gain (loss) on sale of assets	(515,179)	(49,437)
Other	11,762	1,919
Total nonoperating revenues (expenses)	<u>(356,891)</u>	<u>2,071,971</u>
Income (loss) before transfers	(2,008,470)	(153,989)
Transfers in	<u>3,995,081</u>	<u>2,637,190</u>
Change in net assets	1,986,611	2,483,201
Total net assets - beginning	31,532,430	29,049,229
Total net assets - ending	<u><u>\$ 33,519,041</u></u>	<u><u>\$ 31,532,430</u></u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2002 AND 2001

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	2002	2001
		(Restated)
Cash flows from operating activities		
Cash received from customers and government	\$ 1,679,259	\$ 1,564,162
Cash paid to employees	(718,050)	(742,724)
Cash paid to suppliers and government	(1,351,742)	(1,669,493)
Net cash provided (used) by operating activities	(390,533)	(848,055)
Cash flows from noncapital financing activities		
State of West Virginia operating assistance	2,751,919	2,977,190
Net cash provided (used) by noncapital financing activities	2,751,919	2,977,190
Cash flows from capital and related financing activities		
Federal and state flood disaster recovery assistance	287,046	2,346,812
Purchase of capital assets	(2,424,569)	(4,098,597)
Cash received from sale of capital assets	41,763	96,838
Interest paid	(154,083)	(181,593)
Principal paid	(280,000)	(265,000)
Net cash provided (used) by capital and related financing activities	(2,529,843)	(2,101,540)
Cash flows from investing activities		
Receipts of interest	13,563	34,476
Net cash provided (used) by investing activities	13,563	34,476
Increase (decrease) in cash and cash equivalents	(154,894)	62,071
Cash and cash equivalents, beginning of year including restricted cash	1,098,948	1,036,877
Cash and cash equivalents, end of year including restricted cash	\$ 944,054	\$ 1,098,948
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating loss	\$ (1,651,579)	\$ (2,225,960)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,298,641	1,196,802
Amortization	(16,666)	(16,666)
Changes in operating assets and liabilities		
Increase (decrease) in accounts payable	74,994	56,875
(Increase) decrease in inventories	33,880	24,699
(Increase) decrease in other current assets	(239)	783
(Increase) decrease in compensated absences	27,553	7,088
(Increase) decrease in due to other governmental entities	(125)	275,022
Increase (decrease) in accrued expenses	(10,953)	(29,692)
(Increase) decrease in receivables	(5,029)	374
(Increase) decrease in due from other governmental entities	(141,010)	(137,380)
Net cash provided (used) by operating activities	\$ (390,533)	\$ (848,055)

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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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, the West Virginia Central Railroad, and is responsible for the rails-to-trails program operation. The Secretary of Transportation serves as a member of the Authority and the remaining six members are appointed by the Governor.

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



WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING** - The Authority is considered an enterprise fund and uses the flow of economic resources measurement focus and the accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Enterprise funds are operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

**ADOPTION OF GASB 34 AND RELATED STATEMENTS** - The Authority has implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements established financial reporting standards for state and local governments by revising the basic financial statement requirements and also requiring a management's discussion and analysis which precedes the financial statements to provide an analytical overview of the entity's financial activities. The Authority adopted the provisions of these statements for the fiscal year ended June 30, 2002, which is consistent with the State of West Virginia and the West Virginia Department of Transportation's adoption period. The June 30, 2001 financial statements have been restated to reflect these new standards. The primary restatement relates to the fact that under the prior standards, capital grants were accounted for as contributed capital. Under the new standards, all grants, whether capital or operating, are classified as revenues. The following summarizes the significant changes.

	As previously <u>reported</u>	<u>As restated</u>
Fund equity		
Contributed capital	\$ 18,951,858	\$ -
Retained earnings	12,580,572	-
Net assets		
Invested in capital assets, net of related debt	-	31,285,393
Unrestricted	-	247,037
	<u>\$ 31,532,430</u>	<u>\$ 31,532,430</u>

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	As previously <u>reported</u>	<u>As restated</u>
Non operating revenues - Federal rehabilitation assistance	-	\$ <u>2,266,605</u>
Net income	\$ <u>216,596</u>	-
Change in net assets	-	\$ <u>2,483,200</u>

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 - Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). In addition, the Authority makes interest-earning deposits in certain investment pools maintained by IMB that are available to the Authority with overnight notice. Interest income from these investments is prorated to the Authority at rates specified by IMB based on the balance of the Authority's deposits maintained in relation to the total deposits of all state agencies participating in the pool. Because these deposits are held in the IMB investment pools, no other disclosures related to safekeeping, credit or market risk, or GASB 3 risk are required. However, market risk exists as the value of the investment pools underlying investment assets may decline because of an increase in interest rates or a decline in stock prices. The carrying value of the deposits reflected in the financial statements approximates fair value and approximates the value of the shares in the external investment pool.

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the IMB for investment in accordance with the West Virginia Code, policies set by the IMB, and provisions of bond indentures and trust agreements when applicable. The IMB is governed by a thirteen-member Board of Trustees. The Governor, the State Auditor and the State Treasurer are members of the Board and the other members are appointed by the Governor. The Board was formed in 1997 to serve as the Trustee to hold certain public pension funds and insurance funds, as well as to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RESTRICTED CASH AND CASH EQUIVALENTS - Restricted cash and cash equivalents of \$505,197 and \$489,137, at June 30, 2002 and 2001 respectively, are invested in a U.S. Government securities money market mutual fund reported at fair value. The carrying amount of these deposits do not differ materially from the bank balance of these deposits at June 30. These deposits are subject to the terms of a loan agreement and bond covenants, which restrict the deposits to resources accumulated for debt service payments.

The Authority's balances invested in money market mutual funds are not subject to categorization under the provisions of Statement No. 3 of the Governmental Accounting Standards Board.

INVENTORIES - Inventories are valued using the weighted average method.

CAPITAL ASSETS - Purchases of capital assets are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets ranging from five to forty years. Buildings with an initial cost of \$25,000 or more and furniture and equipment and other capital assets with an initial cost of \$5,000 or more with an expected life of five or more years 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.

COMPENSATED ABSENCES, INCLUDING POSTRETIREMENT BENEFITS - Employees fully vest in all earned but unused annual leave and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer paid premiums for postretirement health care coverage through the West Virginia Public Employees Insurance Agency, or be converted into a greater retirement benefit under the State's Public Employees' Retirement System. The estimated obligation for such benefits, as they relate only to those persons employed directly by the Authority presently or in the past, is recorded as a liability in the accompanying financial statements.

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.

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT - This component of net assets consists primarily of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

RESTRICTED NET ASSETS - Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the Authority's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed. For the years ended June 30, 2002 and 2001, there were no restricted net assets.

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

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

RECLASSIFICATIONS - In addition to the changes identified above related to the adoption of GASB 34 and related statements, certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. Such reclassifications did not impact the change in net assets.

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 3 - CAPITAL ASSETS

Capital assets balances at June 30, 2001, and 2002, and activity for the year ended June 30, 2002 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 4,872,621	\$ -	\$ 82,033	\$ 4,790,588
Rail properties	40,168,853	2,407,099	1,362,625	41,213,327
Transportation and other equipment	830,966	68,466	-	899,432
Office building and equipment	<u>496,881</u>	<u>2,866</u>	<u>-</u>	<u>499,747</u>
Total	<u>\$ 46,369,321</u>	<u>\$ 2,478,431</u>	<u>\$ 1,444,658</u>	<u>\$ 47,403,094</u>

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of notes payable to the County Commissions of Hardy County and Hampshire County, West Virginia, payable in monthly installments ranging from \$37,852 to \$37,748, including interest ranging from 6.7% to 7.4%, with the final payment due July 2007. In July 1998, in consideration of a one-time payment in the amount of \$150,000, the Authority agreed to surrender its right to redeem the notes in accordance with the original trust indenture. This payment is recorded as a premium on the notes payable and is being amortized over the life of the notes, offsetting the related interest expense, using the straight-line method. At June 30, 2002 and 2001, the Authority's premium on notes payable was \$83,336 and \$100,002, respectively, and amortization expense related to the premium was \$16,666 per year. The notes are secured by all gross operating receipts of the Authority, excluding any transfers from the State of West Virginia.

Total notes payable at June 30, 2001	\$ 2,535,002
Less principle retirement	280,000
Less amortization of premium	<u>16,666</u>
Total notes payable at June 30, 2002	2,238,336
Less current portion	<u>316,666</u>
Long-term notes payable	<u>\$ 1,921,670</u>

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 4 - LONG-TERM DEBT (Continued)

Maturities of long-term debt as well as the related interest to be paid for each of the next five years and thereafter are as follows:

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 300,000	\$ 144,020	\$ 444,020
2004	320,000	122,620	442,620
2005	345,000	99,173	444,173
2006	370,000	86,925	456,925
2007	395,000	60,285	455,285
2008	<u>425,000</u>	<u>31,450</u>	<u>456,450</u>
	2,155,000	544,473	2,699,473
Premium	83,336	-	83,336
Amortization of premium	<u>-</u>	<u>(83,336)</u>	<u>(83,336)</u>
	<u>\$ 2,238,336</u>	<u>\$ 461,137</u>	<u>\$ 2,699,473</u>

NOTE 5 - DUE TO/FROM OTHER GOVERNMENTAL ENTITIES

At June 30, 2002 and 2001, the Authority had amounts due to the Department of Transportation, Division of Highways of \$421,594 and \$421,718, respectively. At June 30, 2002 and 2001, the Authority had amounts due from the following other governmental entities:

	<u>2002</u>	<u>2001</u>
State of West Virginia	\$ 1,233,736	\$ 92,726
State of West Virginia - Division of Natural Resources	<u>-</u>	<u>96,838</u>
	<u>\$ 1,233,736</u>	<u>\$ 189,564</u>

NOTE 6 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the years ended June 30, 2002 and 2001, approximately 96% and 93%, respectively, of the Authority's freight traffic was attributable to a single customer. In addition, during the years ended June 30, 2002 and 2001, the Authority received transfers of \$3,995,081 and \$2,637,190, respectively, in appropriated funds from the State of West Virginia. A significant decrease in this assistance could 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), the Public Employees Insurance Agency (PEIA), and the Workers' Compensation Fund (WCF) 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. There have been no settlements that have exceeded this coverage in the last three years. PEIA is also a public entity risk pool and provides coverage for employee and dependent health, life and prescription drug insurance. The WCF provides coverage for work related accidents and is considered an insurance enterprise fund.

Through its participation in the PEIA and WCF, the Authority has obtained health, life and prescription drug coverage, and coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and WCF, the Authority has transferred its risks related to health, life and prescription drug coverage, and job related injuries of employees.

NOTE 8 - RETIREMENT PLAN

**PLAN DESCRIPTION** - The Authority contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined contribution pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees. Employees who retire at or after age 60 with five or more years of contributory service or who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2002 AND 2001

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NOTE 8 - RETIREMENT PLAN (Continued)

FUNDING POLICY - The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 14% of annual covered payroll, including the Authority's contribution of 9.5% which is established by PERS. The Authority's contributions to PERS for the years ending June 30, 2002, 2001 and 2000 were \$66,516, \$69,672 and \$61,707, respectively, equal to the required contributions for each year.

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to the Public Employees Insurance Agency or to obtain a greater benefit under PERS. The estimated liability for sick leave postretirement benefits approximating \$136,920 and \$108,973 respectively, is included in other accrued liabilities in the statements of net assets.

During the years ended June 30, 2002 and 2001, the Authority did not disburse any benefits from the liability balances discussed above to fund health insurance premiums for its retirees who had elected to use their accumulated leave time for health coverage.



## COMPLIANCE AND INTERNAL CONTROL REPORT



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

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

We have audited the financial statements of the West Virginia State Rail Authority (the Authority) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 30, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Authority in a separate letter dated August 30, 2002.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Suttle & Stalnaker, PLLC*

August 30, 2002