West Virginia Parkways Authority

(A Component Unit of the State of West Virginia)

Audited Financial Statements with
Other Financial Information

Years Ended June 30, 2014 and 2013

WEST VIRGINIA PARKWAYS AUTHORITY
(A Component Unit of the State of West Virginia)

Audited Financial Statements
with Other Financial Information

Years Ended June 30, 2014 and 2013

Table of Contents

	Page
Independent Auditor's Report	3 - 4
Management's Discussion and Analysis (Unaudited)	5 - 10
Basic Financial Statements	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14 - 32
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*	33 - 34
Other Financial Information	
Revenue Bond Coverage (Unaudited)	36

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of the
West Virginia Parkways Authority
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Parkways Authority (the Authority), a component unit of the State of West Virginia, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

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

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, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other financial information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other financial information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 2014 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 the Authority's internal control over financial reporting and compliance.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 2, 2014

The management of the West Virginia Parkways Authority (hereinafter referred to as the Authority) offers this narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2014 which should be read in conjunction with the Authority's basic financial statements. Certain amounts presented in the prior period have been restated to conform to the current period financial statements presentation.

FINANCIAL HIGHLIGHTS

- The total number of transactions on the West Virginia Turnpike during fiscal year 2014 increased 1.1 percent from fiscal year 2013. The increase in transactions resulted in an increase in toll revenue of approximately $1.4 million or 1.7%.

- In conjunction with the adoption of the new toll rate schedule in August 2009, the Authority implemented a ten-year program to address the approximately $335 million backlog of essential deferred maintenance and capital needs identified with the Authority's consulting engineers. In addition to the increased activity of the Authority's own maintenance staff, the Authority has utilized over $147.4 million of capital towards roadway reconstruction, rehabilitation and repair and other capital expenditures since the rate increase. At June 30, 2014, the Authority had contractual commitments totaling approximately $26.0 million for various Turnpike System improvement projects.

- Excluding depreciation, operating expenses increased $0.5 million or 1.1 percent from 2013. Increases in expenditures related to salt, damage claims and recoveries and other maintenance expenses were offset by staffing reductions in the toll collection department.

Basic Financial Statements

The Authority accounts for its operations and financial transactions in a manner similar to that used by private business enterprises: the accrual basis of accounting. In these statements, revenue is recognized in the period in which it is earned, and an expense is recognized in the period in which it is incurred, regardless of the timing of its related cash flow.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. For each fiscal year, the Authority's basic financial statements are comprised of the following:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

The Statements of Net Position present information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position, over time, may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present revenue and expense information and how the Authority's net position changed during the fiscal year as a result of these transactions.

The Statements of Cash Flows present sources and uses of cash for the fiscal year, displayed in the following categories: cash flows from operating activities, cash flows from capital and related financing activities, and cash flows from investing activities.

The Notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. They are an integral part of the basic financial statements.

FINANCIAL ANALYSIS

Operating Revenue

Toll revenues represent the major source of funding for the Authority. Passenger car traffic volume increased 0.8% and large commercial traffic volume increased by 2.1% during 2014. Passenger car toll revenues increased 1.1% and large commercial traffic volume increased by 2.0%. Toll revenues increased 3.5% in the last quarter of the fiscal year.

Although toll transactions had increased from December 2011 through June 2012, transactions declined beginning July, 2012 resulting in a decrease of 1.9% in total transactions for fiscal year 2013 from 2012. The revenue loss from the reduction in transactions, coupled with revenue loss from the increased use of available E-ZPass® discount programs was offset by enhanced revenue from systems implemented with the upgraded electronic toll collection system, so that total toll revenues only decreased by 0.5 percent for the year.

CHANGES IN NET POSITION INFORMATION
(in Thousands)

	2014	2013	2012	Change '14-'13
Revenues:				
Operating revenues:				
Toll revenues	$ 84,907	$ 83,519	$ 83,907	1.7%
Other revenues	6,749	6,944	7,217	(2.8)%
Nonoperating revenues:				
Net investment revenue	302	122	242	147.5%
Total revenues	91,958	90,585	91,366	1.5%
Expenses:				
Operating expenses:				
Maintenance	23,028	21,907	22,337	5.1%
Toll collection	9,826	10,332	11,411	(4.9)%
Traffic enforcement	3,487	3,581	3,744	(2.6)%
General and administrative	9,154	9,159	9,590	(0.01)%
Depreciation	36,294	35,595	32,924	2.0%
Nonoperating expenses:				
Interest expense	3,278	3,420	4,213	(4.2)%
Total expenses	85,067	83,994	84,219	1.3%
Change in net position	6,891	6,591	7,147	4.6%
Net position, beginning of year	465,992	459,401	452,254	1.4%
Net position, end of year	$ 472,883	$ 465,992	$ 459,401	1.5%

In early 2009, the Authority engaged its consulting engineer, HNTB Corporation, to make a recommendation based on its study of the Turnpike's needs for estimated operating expenses, renewal and replacement requirements and essential deferred maintenance and capital needs. Factors prompting this decision included a combination of increasing costs and declining traffic and toll revenues exacerbated by the global economic recession, a growing backlog of essential deferred maintenance and capital needs and the potential for a technical default on the Turnpike Bonds. The technical default could have occurred if the Authority had adopted a fiscal year 2010 budget based on the old toll rate schedule and the debt service coverage requirement under its bond indentures had not been met.

In April 2009, the consulting engineers recommended the Authority implement a ten-year program to address the backlog of essential deferred maintenance and capital needs estimated to cost $335 million. It was estimated that the Authority would need just over $20 million of additional revenue for fiscal year 2010 increasing each future fiscal year by approximately 4% per year for inflation and escalation. The additional toll revenue is anticipated to fully fund this program without the issuance of additional debt by the Authority.

Concurrently, the Authority engaged its traffic engineer to study and report on recent transaction and revenue trends and to develop traffic and revenue forecasts under the previous toll rate schedule as well as under various levels of toll rates, and to make a recommendation as to the least increase in toll rates, combined with the largest discount for electronic toll customers, that is estimated to produce enough annual toll revenue to meet the ten year program as outlined by the consulting engineer.

On July 1, 2009, the Authority adopted a new toll and discount rate schedule that became effective August 1, 2009. Cash toll rates were increased by approximately 60% from $1.25 to $2.00 per barrier for passenger cars and from $4.25 to $6.75 per barrier for 5-axle tractor-trailers. All other classes were increased proportionately. As required by State Code, discounts for all classes of vehicles paying by electronic transponders issued by the Parkways Authority were also adopted. For passenger cars, the discount for paying with an Authority issued E-ZPass® transponder is 35%. For commercial trucks, the discount for using any E-ZPass® is 13%, and for using an Authority issued E-ZPass® is 20%.

Beginning in the fiscal year ended June 30, 2010, toll revenues exceeded projections allowing the Authority to proceed with the plan ahead of schedule. The Authority has utilized over $147.4 million of capital towards roadway reconstruction, rehabilitation and repair and other capital expenditures since the rate increase.

Operating Expenses

For the year ended June 30, 2014, total expenses increased 1.3% or $1.1 million. Depreciation expense increased due to the number of infrastructure projects being placed in service as a result of the Authority's 10 year capital improvement plan. Increases in expenditures related to salt, damage claims and recoveries and other maintenance expenses were offset by staffing reductions in the toll collection department.

For the year ended June 30, 2013, operating expenses were similar as the prior year except for an expected substantial decrease in the Authority's Annual Required Contribution (ARC) due under the State's Other Post Employment Benefits (OPEB) plan related to retiree health insurance. Previously the Authority accrued an average $2.75 million per year in liability. Due to a funding plan established by the State, for 2013 and beyond, estimated liability under the plan will increase only approximately $0.1 million per year.

Non-operating Revenue and Expense

Interest expense decreased 4.2% in 2014 and 18.8% in 2013 due to the amortization of principal and the stabilization of the Authority's variable interest rate associated with the Series 2008 Toll Revenue Bonds. Net investment revenue has been reduced to historically low levels as a result of the low interest rates on low risk securities such as those held as investments by the Authority.

CONDENSED STATEMENTS OF NET POSITION INFORMATION
(in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2014	2013	2012	Change '14-'13
Current assets	$ 53,678	$ 49,513	$ 42,259	8.4%
Long-term investments	26,240	20,401	24,528	28.6%
Capital assets, net	458,490	470,889	470,161	(2.6)%
Deferred outflows	7,603	9,717	12,481	(21.8)%
Total assets plus deferred outflows	$ 546,011	$ 550,520	$ 549,429	(0.8)%
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current liabilities	$ 20,689	$ 22,363	$ 18,356	(7.5)%
Long-term revenue bonds	39,084	47,775	55,836	(18.2)%
Other long-term liabilities	10,039	9,901	9,522	1.4%
Deferred inflows	3,316	4,489	6,314	(26.1)%
Total liabilities plus deferred inflows	73,128	84,528	90,028	(13.5)%
Net position:				
Net investment in capital assets	415,153	420,432	412,527	(1.3)%
Restricted	56,020	43,824	45,127	27.8%
Unrestricted	1,710	1,736	1,747	(1.5)%
Total net position	472,883	465,992	459,401	1.5%
Total liabilities, deferred inflows and net position	$ 546,011	$ 550,520	$ 549,429	(0.8)%

Assets

The Authority's cash and investment account balances increased approximately 14%. Ending cash balances are higher due to the timing of the billing and completion of construction contracts. For the year ended June 30, 2014, net capital assets decreased by $12.4 million as the result of capital improvements of $23.9 million offset by $36.3 million of depreciation expense. For the year ended June 30, 2013, net capital assets increased $0.7 million with capital improvements of $36.3 million less depreciation expense of $35.6 million. See Note 4 of the financial statements for more detailed information on the Authority's capital assets.

Liabilities

For the year ended June 30, 2014, total liabilities and deferred inflows of resources decreased $11.4 million. Current liabilities decreased due to the timing of invoices related to construction contracts in progress. Regularly scheduled principal maturities contributed to the decrease in long-term debt.

For the year ended June 30, 2013, total liabilities and deferred inflows of resources decreased $5.5 million. Current liabilities increased due to the timing of invoices related to construction contracts in progress. Regularly scheduled principal maturities contributed to the decrease in long-term debt.

See Note 5 of the financial statements for more detailed information on the Authority's long-term debt.

The Authority's credit ratings are among the best for similar facilities worldwide. The current agency ratings are as follows:

Agency	Rating
Standard & Poor's	AA-
Moody's Investors Service	AA3

CAPITAL ASSETS

The Authority's capital assets consist of land, buildings, equipment and infrastructure. Infrastructure assets are typically items that are immovable such as highways and bridges. The Authority's investment in capital assets at June 30, 2014 amounted to $1.1 billion of gross asset value with accumulated depreciation of $652.5 million, leaving a net book value of $458.5 million. Capital assets represented 84% of the Authority's total assets and deferred outflows of resources at June 30, 2014. Additional information on the Authority's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

In 2002, the Authority issued $44,205,000 in Revenue Refunding Bonds which are due in varying installments through May 2019. These Bonds were issued for the express purpose of defeasing $36,036,000 of the Authority's Series 1993 Bonds.

In 2008, the Authority issued $59,100,000 of Variable Rate Demand Revenue Refunding Bonds which are due in varying installments through May 2019. These Bonds were issued for the express purpose of refunding $59,100,000 of the Authority's Series 2003 Bonds.

Additional information on the Authority's long-term debt activity can be found in the notes to the financial statements.

FACTORS IMPACTING FUTURE OPERATIONS

In August, 2012, the Governor established The West Virginia Blue Ribbon Highway Commission to study the condition and needs of the State's transportation system and to develop a long-term strategic plan of action. The plan will include funding options for the maintenance, construction and expansion of the State's roadway system and may include recommendations related to tolls on the West Virginia Turnpike. The Blue Ribbon Highway Commission will present a report to the Governor which may include proposed legislative changes.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interested parties 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 financial information, contact the West Virginia Parkways Authority, Director of Finance, P. O. Box 1469, Charleston, West Virginia 25325-1469.

WEST VIRGINIA PARKWAYS AUTHORITY

(A Component Unit of the State of West Virginia)

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

(In Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2014	2013
Current assets:		
Cash and cash equivalents	$ 34,763	$ 24,838
Short-term investments	12,260	19,016
Accounts receivable	2,808	2,583
Accrued interest receivable	54	40
Inventory	2,608	2,885
Other	1,185	151
Total current assets	53,678	49,513
Noncurrent assets:		
Investments in securities maturing beyond one year	26,240	20,401
Capital assets, net	458,490	470,889
Total noncurrent assets	484,730	491,290
Total assets	538,408	540,803
Deferred outflows of resources:		
Fair value of hedging derivative instrument	3,316	4,489
Deferred bond refunding loss:		
Series 2002 revenue bonds	1,702	2,074
Series 2008 revenue bonds	2,585	3,154
Total deferred outflows of resources	7,603	9,717
Total assets plus deferred outflows of resources	$ 546,011	$ 550,520
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 6,707	$ 9,778
Accrued interest payable	132	262
Customer deposits	1,952	1,545
Other accrued liabilities	2,648	2,165
Current portion of compensated absences	710	703
Current portion of long-term revenue bonds	8,540	7,910
Total current liabilities	20,689	22,363
Noncurrent liabilities:		
Noncurrent portion of long-term revenue bonds, net of unamortized premiums:		
Series 2002 revenue bonds	13,984	17,075
Series 2008 revenue bonds	25,100	30,700
	39,084	47,775
Noncurrent portion of compensated absences	287	294
Accrued post-employment benefits other than pensions	9,752	9,607
Total noncurrent liabilities	49,123	57,676
Total liabilities	69,812	80,039
Deferred inflows of resources:		
Fair value of hedging derivative instrument	3,316	4,489
Total deferred inflows of resources	3,316	4,489
Total liabilities plus deferred inflows of resources	73,128	84,528
Net position:		
Net investment in capital assets	415,153	420,432
Restricted by trust indenture and tri-party agreement	56,020	43,824
Unrestricted	1,710	1,736
Total net position	472,883	465,992
Total liabilities, deferred inflows of resources and net position	$ 546,011	$ 550,520

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA PARKWAYS AUTHORITY

(A Component Unit of the State of West Virginia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Operating revenues:		
Toll revenues	$ 84,907	$ 83,519
Other revenues	6,749	6,944
Total revenues	91,656	90,463
Operating expenses:		
Maintenance	23,028	21,907
Toll collection	9,826	10,332
Traffic enforcement and communications	3,487	3,581
General and administrative	9,154	9,159
Depreciation	36,294	35,595
Total operating expenses	81,789	80,574
Operating income	9,867	9,889
Nonoperating revenues (expenses):		
Interest expense	(3,278)	(3,420)
Net investment revenue	302	122
Nonoperating revenues (expenses), net	(2,976)	(3,298)
Changes in net position	6,891	6,591
Net position, beginning of year	465,992	459,401
Net position, end of year	$ 472,883	$ 465,992

The accompanying notes are an integral part of these financial statements.

(A Component Unit of the State of West Virginia)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Cash flows from operating activities:		
Cash received from customers and users	$ 92,063	$ 90,463
Cash paid to employees	(23,116)	(27,447)
Cash paid to suppliers	(25,948)	(13,529)
Net cash provided by operating activities	42,999	49,487
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(23,895)	(36,323)
Debt service for revenue bonds:		
Principal	(7,910)	(7,966)
Interest	(2,488)	(2,633)
Net cash used in capital and related financing activities	(34,293)	(46,922)
Cash flows from investing activities:		
Purchase of investments	(30,948)	(44,112)
Proceeds from sales and maturities of investments	31,865	43,438
Interest from investments	302	122
Net cash provided by (used in) investing activities	1,219	(552)
Increase in cash and cash equivalents	9,925	2,013
Cash and cash equivalents, beginning of year	24,838	22,825
Cash and cash equivalents, end of year	$ 34,763	$ 24,838
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 9,867	$ 9,889
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	36,294	35,595
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(239)	(17)
(Increase) decrease in inventory	277	(369)
(Increase) decrease in other current assets	(1,034)	(52)
Increase (decrease) in accounts payable and other liabilities	(2,311)	4,356
Increase in accrued post-employment benefits	145	85
Net cash provided by operating activities	$ 42,999	$ 49,487

The accompanying notes are an integral part of these financial statements.

NOTE 1 - FINANCIAL REPORTING ENTITY

Pursuant to Senate Bill 427, the Authority's legal name was changed to the West Virginia Parkways Authority effective July 1, 2010. The West Virginia Parkways Economic Development and Tourism Authority was created as the successor-in-interest to the West Virginia Turnpike Commission (the Turnpike Commission) by an Act (the Act) of the West Virginia Legislature effective June 1, 1989. All the duties, powers, and functions of the Turnpike Commission were transferred to the Authority. Under the Act, the Authority assumed all assets, property, obligations, indebtedness, and other liabilities of the Turnpike Commission and personnel of the Turnpike Commission were transferred to the employment of the Authority. The Authority has the power to enact and amend its operating budget, and receives no appropriations from the State of West Virginia (the State). The State's Governor or his designee serves as chairman of the Authority and the State's Secretary of Transportation serves as a board member. The other seven Authority members are appointed by the Governor with the approval of the Senate. As the State is able to impose its will over the Authority, the Authority is considered a component unit of the State and its financial statements are discretely presented in the comprehensive annual financial report of the State.

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 generally accepted accounting principles. Generally accepted accounting principles 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

The Authority is accounted for as a government entity engaged in business-type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The Authority is included in the State's basic financial statements as a business-type activity using the accrual basis of accounting. Because of the Authority's business-type activities, there may be differences between the amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value as determined by published sources and realized and unrealized gains or losses are reported in the statements of revenues, expenses, and changes in net position as a component of investment income.

Allowance for Doubtful Accounts

It is the Authority's policy to provide for future losses on uncollectible accounts based on an evaluation of the underlying accounts, 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, 2014 and 2013, management believes that all accounts receivable will be collected; therefore, no allowance for doubtful accounts has been booked.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items), are reported at historical cost and include interest on funds borrowed to finance construction. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $30,000 for Turnpike activities and $2,500 for economic development activities and an estimated useful life in excess of one year. Contributed infrastructure assets are stated at the Department of Highways cost basis, adjusted for depreciation occurring from the date the assets were placed in service through the date of transfer of such assets to the Authority. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets; buildings (30 years); equipment (5-10 years); and infrastructure (10-50 years).

Deferred Outflow of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees fully vest in all earned but unused vacation and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, the Authority participates in an other post-employment benefit plan (see Note 6).

Customer Deposits

Customer deposits consist of prepaid deposits made by personal and commercial customers into E-ZPass® toll collection accounts held by the Authority.

Bond Discounts, Premiums and Deferred Loss on Advance Refunding

Bond discounts and premiums are being accreted and amortized over the varying terms of the bonds issued. The difference between the reacquisition price and the net carrying amount of refunded debt is reported in the financial statements as a deferred outflow of resources, with the related amortization of such deferral being charged to interest expense using the straight-line method.

Deferred Inflow of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period.

Net Position

Net position represents assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net investment in capital assets consists of all capital assets, plus deferred refunding loss on debt related to the acquisition, construction or improvement of those assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors, or grantors. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are applied first.

Restricted net position consists of amounts restricted by trust indenture and the tri-party agreement that can only be used for maintenance and operation of the Turnpike and for debt service.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods. Revenues and expenses related to capital and related financing, non-capital financing, or investing activities are not included as operating revenues and expenses. Other items not meeting these definitions are reported as nonoperating revenues and expenses.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Revenues

Other revenues primarily consist of concession sales at the travel centers on the West Virginia Turnpike and craft and food sales at the Caperton Center (also known as TAMARACK-*The Best of West Virginia*). The amount of sales reported is net of costs of goods sold. The related general and administrative expenses are included under operating expenses in the statements of revenues, expenses, and changes in net position.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 2, 2014, the date the financial statements were issued.

NOTE 3 - DEPOSITS AND INVESTMENTS

All of the Authority's cash on hand is held with outside bank accounts, totaling (in thousands) approximately $34,763 and $24,838 in 2014 and 2013, respectively.

A reconciliation of the investments disclosed in this Note to the amounts reported in the Statements of Net Position is as follows (in thousands):

As disclosed in this Note:		
Total deposits with outside banks	$ 34,763	
Total WV Short Term Bond Pool	3,142	
Total other investments	35,358	
		$ 73,263
As reported on the Statement of Net Position:		
Cash and cash equivalents	$ 34,763	
Short-term investments	12,260	
Investments in securities maturing beyond one year	26,240	
		$ 73,263

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The cost of investment securities is allocated at June 30, 2014 and 2013, among the following restricted and designated accounts created under the various Trust Indentures or by the adoption of Authority resolution (in thousands):

	June 30 2014	June 30 2013
Restricted and designated assets:		
Assets restricted by Trust Indenture:		
Series 1993, 2002, and 2008 Reserves	$ 10,808	$ 10,808
Renewal and Replacement	10,583	11,128
Operating and Maintenance	4,740	4,834
Series 2002 Debt Service	805	509
Series 2008 Debt Service	1,324	512
	28,260	27,791
Reserve Revenue, restricted by Tri-Party Agreement	27,638	17,111
Total restricted	55,898	44,902
Facility Improvement	1,969	1,969
Insurance Liability	1,000	1,000
Non Toll Revenue Fund	1,710	1,736
Total restricted and designated assets as allocated by Trust Indentures	$ 60,577	$ 49,607

The assets restricted by the 1993 Trust Indenture, as supplemented, must be used for construction, Turnpike maintenance and operation, and debt service. The Trust Indentures require that the balance in the 1993, 2002, and 2008 Reserve Account equal maximum annual debt service for such bonds. The balance in the 1993, 2002, and 2008 Debt Service Accounts are required by the Trust Indentures to have a balance equal to accrued debt service for the current year plus one-twelfth of the debt service which will accrue in the next succeeding fiscal year. The Trust Indentures also require that a reserve be established for Renewal and Replacement that equals the consulting engineer's recommendations for the year. The Operations and Maintenance Account is required by the Trust Indentures to maintain a balance equal to one-eighth of budgeted operating expenses for the fiscal year.

The Insurance Liability account is a self-insured fund that covers the Authority against risk of loss from natural disaster, among other items, and is designated as the Authority's percentage of contribution in the event of a disaster.

The Non Toll Revenue Fund is designated to be used for Non Turnpike activities. This balance is shown as unrestricted net position on the Statement of Net Position.

The Reserve Revenue Account, restricted by the Tri-Party Agreement dated December 1988 among the West Virginia Department of Transportation, the Federal Highway Administration, and the Authority, can only be used for maintenance and operation of the Turnpike and for debt service.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The Facility Improvement account was established in March 2004 by dedicating funds from the superload fees that are collected by the Division of Highways on the Authority's behalf. This fund will be used at the Board's discretion for either facility repairs and improvements or as a sinking fund for the rehabilitation of future facilities.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the Authority's investments are subject to interest rate risk. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Authority's investment policies limit individual securities in the Authority's investment portfolio to remaining maturities of less than five years and the weighted dollar average maturity is capped at three years. As of June 30, 2014, the Authority had the following investments (in thousands) and maturities (in years):

Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	10+
Government agency bonds	$ 27,315	$ 4,217	$ 23,075	$ 23	$ -
State government bonds	2	2	-	-	-
Corporate bonds	3,142	3,142	-	-	-
U.S. Treasury bills	1,900	1,900	-	-	-
Certificate of deposit – financial institution	6,141	6,141	-	-	-
	$ 38,500	$ 15,402	$ 23,075	$ 23	$ -

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority's cash deposits with financial institutions (in thousands) were $34,763 and $24,838 at June 30, 2014 and 2013, respectively. These deposits, which had a bank balance of $36,108 and $23,952, respectively, are insured by the Federal Deposit Insurance Corporation and/or collateralized with securities held in the Authority's name by its agent.

As of June 30, 2014, the Authority had investment balances with the following issuers which were greater than or equal to 5% of the Authority's total investment balance:

Security Type	Issuer	Percentage of Investments
Government agency bonds	Federal National Mortgage Association	25%
	Federal Home Loan Mortgage Corp.	22
	Federal Home Loan Bank	16
	Federal Farm Credit Bank	8

Custodial credit risk - Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the Authority's investments contain nonnegotiable certificates of deposit.

Foreign currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority does not hold any foreign currency or hold any interests in foreign currency.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

BTI DISCLOSURE INFORMATION

The West Virginia Board of Treasury Investment (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 BTI's 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 BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the Authority invests, all are subject to credit risk.

WV Short Term Bond Pool:

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated BBB- or higher by Standard & Poor's (or its equivalent). Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	Credit Rating			2014		2013	
Security Type	Moody's	S&P		Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	Aaa	AAA		$ 91,752	11.89%	$ 53,681	8.72%
	Aaa	NR		76,982	9.97	59,810	9.71
	NR	AAA		71,564	9.27	37,411	6.07
	NR	AA+		-	-	2,514	0.41
	Caa1	CCC	*	-	-	932	0.15
	Caa3	D	*	300	0.04	367	0.06
	Caa3	NR	*	19	0.00	24	0.00
	Ca	CCC	*	321	0.04	308	0.05
	Ca	D	*	94	0.01	95	0.02
	NR	NR	*	4,024	0.52	3,819	0.62
Total corporate asset-backed securities				245,056	31.74	158,961	25.81
Corporate bonds and notes	Aaa	AA+		7,675	0.99	-	-
	Aa1	AA+		5,005	0.65	-	-
	Aa2	AA+		4,034	0.52	3,002	0.49
	Aa2	AA		9,791	1.27	12,731	2.07
	Aa2	AA-		10,055	1.30	9,192	1.49
	Aa3	AA-		23,468	3.04	33,034	5.36
	Aa3	A+		10,066	1.30	11,693	1.90
	A1	AA+		13,268	1.72	13,295	2.16
	A1	AA		-	-	4,118	0.67
	A1	AA-		5,987	0.78	-	-
	A1	A+		38,092	4.93	47,500	7.71
	A1	A		5,122	0.66	13,522	2.19
	A1	A-		1,099	0.14	-	-
	A2	A+		9,678	1.25	9,348	1.52
	A2	A		36,840	4.77	47,709	7.75
	A2	A-		12,119	1.57	5,052	0.82
	A3	A-		12,864	1.67	7,986	1.30
	A3	A		16,082	2.08	-	-
	A3	BBB+		8,862	1.15	-	-
	A3	BBB		1,003	0.13	-	-
	Baa1	A-		12,615	1.63	2,416	0.39
	Baa1	BBB+		25,158	3.26	-	-
	Baa1	BBB		8,344	1.08	-	-
	Baa1	BBB-		1,996	0.26	-	-
	Baa2	A-		-	-	6,959	1.13
	Baa2	BBB-		19,340	2.51	-	-
	Baa2	BBB+		2,006	0.26	-	-
	Baa2	BBB		11,325	1.47	-	-
	Baa2	BBB-		4,448	0.58	-	-
	Baa3	BBB+		2,200	0.29	-	-
	Baa3	BBB		7,539	0.98	-	-
	Baa3	BBB-		16,716	2.17	-	-
Total corporate bonds and notes				342,797	44.41	227,557	36.95
U.S. agency bonds	Aaa	AA+		10,007	1.30	9,986	1.62
U.S. Treasury notes **	Aaa	AA+		121,559	15.75	140,154	22.76
U.S. agency mortgage-backed securities ***	Aaa	AA+		38,296	4.96	73,692	11.97
Money market funds	Aaa	AAAm		14,226	1.84	5,457	0.89
				$ 771,941	100.00%	$ 615,807	100.00%

NR = Not Rated

* The securities were not in compliance with BTI Investment Policy at June 30, 2014 and/or 2013. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

** U.S. Treasury issues are explicitly guaranteed by the United States Government and are not subject to credit risk.

*** U.S. agency mortgage-backed securities are explicitly guaranteed by the United States Government and are not subject to credit risk.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2014 and 2013, the Authority ownership (in thousands) of approximately $3,142 represents 0.4% and ownership of approximately $3,109 represents 0.5%, respectively, of these amounts held by the BTI.

Interest Rate Risk **-** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

	2014		2013	
Security Type	Carrying Value (In Thousands)	Effective Duration (Days)	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	$ 121,559	315	$ 140,154	491
Corporate bonds and notes	342,799	483	227,557	293
Corporate asset-backed securities	245,056	397	158,961	471
U.S. agency bonds/notes	10,007	219	9,986	583
U.S. agency mortgage-backed securities	38,294	291	73,692	60
Money market funds	14,226	1	5,457	1
	$ 771,941	407	$ 615,807	358

Other Investment Risks - Other risks of investing include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's 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 BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30 follows (in thousands):

2014	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable:				
Land	$ 53,247	$ -	$ -	$ 53,247
Capital assets, depreciable:				
Buildings	101,372	1,572	-	102,944
Equipment	13,846	477	-	14,323
Infrastructure	918,641	21,846	-	940,487
Total capital assets being depreciated	1,033,859	23,895	-	1,057,754
Less accumulated depreciation for:				
Buildings	(66,149)	(3,560)	-	(69,709)
Equipment	(8,568)	(1,034)	-	(9,602)
Infrastructure	(541,500)	(31,700)	-	(573,200)
Total accumulated depreciation	(616,217)	(36,294)	-	(652,511)
Total depreciable capital assets, net	417,642	(12,399)	-	405,243
Total capital assets, net	$ 470,889	$ (12,399)	$ -	$ 458,490

2013	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable:				
Land	$ 53,247	$ -	$ -	$ 53,247
Capital assets, depreciable:				
Buildings	99,476	1,896	-	101,372
Equipment	12,087	1,759	-	13,846
Infrastructure	885,973	32,668	-	918,641
Total capital assets being depreciated	997,536	36,323	-	1,033,859
Less accumulated depreciation for:				
Buildings	(62,734)	(3,415)	-	(66,149)
Equipment	(6,928)	(1,640)	-	(8,568)
Infrastructure	(510,960)	(30,540)	-	(541,500)
Total accumulated depreciation	(580,622)	(35,595)	-	(616,217)
Total depreciable capital assets, net	416,914	728	-	417,642
Total capital assets, net	$ 470,161	$ 728	$ -	$ 470,889

NOTE 5 - REVENUE BONDS PAYABLE

Revenue bonds payable consisted of the following at June 30 (in thousands):

	2014	2013
Series 2002 Serial Bonds, issued $44,205 in February 2002 at 3.50% to 5.25%, due in varying installments from May 2002 through May 2019	$ 16,235	$ 18,945
Series 2008 Variable Rate Demand Revenue Refunding Bonds, $59,100 at variable rates, due in varying installments through May 2019	30,700	35,900
Total revenue bonds payable	46,935	54,845
Add:		
Unamortized premium	689	840
Less:		
Current portion of revenue bonds payable	(8,540)	(7,910)
Total long term revenue bonds payable	39,084	47,775
Less:		
Unamortized deferred loss on advance refunding	(4,287)	(5,228)
	$ 34,797	$ 42,547

The Revenue Bonds under the 1993, 2002, 2003, and 2008 Trust Indentures are secured by a pledge of the Authority's toll revenues and all monies deposited into accounts created by the Trust Indentures. Total debt service was $10,529, $11,186, and $10,541 for the years ended June 30, 2014, 2013, and 2012, respectively. Total pledged revenues were approximately $45,660, $47,666, and $48,531, which represents 433.66%, 426.12%, and 460.40% of the total debt service, respectively, for the years ended June 30, 2014, 2013, and 2012.

In 2002, $44,205,000 of Revenue Refunding Bonds were issued for the express purpose of defeasing $36,036,000 of Series 1993 Bonds. The advance refunding resulted in a $6,313,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $221,000 in 2014 and 2013. The Authority completed the advance refunding to reduce its aggregate debt service payments by almost $3,003,064 over an 18-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,623,705.

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

In July 2008, the Authority issued $59,100,000 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding $59,100,000 of the Authority's Series 2003 Bonds. This refunding resulted in a $5,972,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated $569,000 in 2014 and 2013, respectively. The Authority completed the refunding to remove the requirement for bond insurance that was included in the Series 2003 Bonds.

In July 2011, the Authority converted the Series 2008 Variable Rate Demand Revenue Refunding Bonds to a LIBOR Index rate and placed the bonds with a direct purchaser. The supplemental indenture established eight distinct registered bonds in principal amounts identical to the principal maturity schedule prior to the conversion. The Indenture establishes an applicable factor ranging from 67% to 82% of the one-month LIBOR Index with an additional spread ranging from 70 to 110 basis points on each bond. The Interest Rate Swap associated with the Series 2008 Variable Rate Bonds was amended to relate to the new index rate bonds under substantially similar terms.

The Authority has an interest rate swap derivative instrument to synthetically fix, on a current basis, the Series 2008 Refunding Variable Rate Bonds in order to hedge interest rate fluctuations. The key provisions of the instrument are:

Type	Pay-fixed interest rate swap
Objective	Hedge changes in cash flows on the Series 2008 Refunding Variable Rate Bonds
Notional Amount	$30,700,000
Effective Date	July 2, 2008
Maturity Date	May 1, 2019
Terms	Pay 4.387%, receive 67% of One Month LIBOR

The fair value of this interest rate swap is estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rate implied by the yield curve correctly anticipates future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the swap. At June 30, 2014 and 2013, the decrease in the value of the swap since inception was equal to the market value of the swap creating a deferred inflow of resources that offsets the deferred outflow of resources in the Statements of Net Position.

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

The fair value balance for the hedging derivative instrument outstanding at June 30, 2014, and the change in fair value of the instrument for the year ended June 30, 2014, as reported in the 2014 financial statements are as follows (in thousands):

Changes in fair value:	
Increase (decrease)	$ (1,173)
Fair value at June 30, 2014	
Amount	$ 3,316

Risks

Credit Risk - The credit ratings of the counterparty to the interest rate swap are A2 from Moody's, A from Standard & Poor's, and A from Fitch. The interest rate swap agreement requires certain collateralization if the credit rating of the counterparty falls below specific levels. As of June 30, 2014, no collateralization was required by the interest rate swap agreement.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the interest rate swap.

Basis Risk - The Authority is exposed to basis risk on the fixed interest rate swap because the variable-rate payments received by the Authority on this hedging derivative instrument are based on rates other than the interest rate the Authority pays on the hedged variable-rate debt.

Termination Risk - The interest rate swap agreement provides for certain events that could cause the counterparty or the Authority to terminate the swap. The swap may be terminated by the counterparty or the Authority if the other party fails to make payments when due, there is a material breach of representations and warranties, an event of illegality occurs, and failure to comply with any other provisions of the agreement after a specified notice period.

In addition, if the counterparty fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by the Authority. If the Authority fails to maintain ratings of at least Baa3 by Moody's and BBB- by Standard and Poor's, the swap may be terminated by the counterparty. The amount of the termination payment is determined by market quotation by obtaining pricing levels from at least three reference market makers.

The Authority has the right to optionally terminate the swap agreement at any time. The termination amount owed by either the Authority or the counterparty may be determined by market quotation. If at the time of termination the swap has a negative fair value, the Authority would owe the counterparty a payment equal to the swap's fair value.

Rollover Risk - The Authority is exposed to rollover risk on the hedging interest rate swap that may be terminated prior to the maturity of the hedged debt.

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

Swap Payments and Associated Debt - Using rates as of June 30, 2014, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swap, Net	Total
2015	$ 5,600	$ 326	$ 1,315	$ 7,241
2016	5,900	267	1,076	7,243
2017	6,100	196	823	7,119
2018	6,400	137	561	7,098
2019	6,700	72	287	7,059
	$ 30,700	$ 998	$ 4,062	$ 35,760

Bonds Payable Progression and Maturities

The following schedule summarizes the revenue bonds outstanding as of June 30 (in thousands):

2014	Beginning Balance	Additions	Retired	Amortization	Ending Balance	Due Within One Year
Series 2002	$ 19,785	$ -	$ (2,710)	$ (151)	$ 16,924	$ 2,940
Series 2008	35,900	-	(5,200)	-	30,700	5,600
	$ 55,685	$ -	$ (7,910)	$ (151)	$ 47,624	$ 8,540

2013	Beginning Balance	Additions	Retired	Amortization	Ending Balance	Due Within One Year
Series 2002	$ 22,631	$ -	$ (2,695)	$ (151)	$ 19,785	$ 2,710
Series 2008	41,100	-	(5,200)	-	35,900	5,200
	$ 63,731	$ -	$ (7,895)	$ (151)	$ 55,685	$ 7,910

Debt service requirements for the Revenue Bonds subsequent to June 30, 2014, are as follows (in thousands):

Year Ending June 30	Principal Maturities	Interest, Including Accretion	Total
2015	$ 8,540	$ 2,177	$ 10,717
2016	8,995	1,773	10,768
2017	9,310	1,367	10,677
2018	9,805	914	10,719
2019	10,285	454	10,739
	$ 46,935	$ 6,685	$ 53,620

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

Principal outstanding June 30, 2014	$ 46,935
Add:	
Unamortized premium	689
Less:	
Current portion of revenue bonds payable	(8,540)
Long-term portion	$ 39,084

The Revenue Bonds are subject to the arbitrage rebate provisions of the Internal Revenue Code (the Code). The Code requires that 90% of excess investment earnings on the Bond proceeds be paid to the Internal Revenue Service every five years in order for the Bonds to maintain their tax-exempt status. At June 30, 2014 and 2013, the Authority's estimated arbitrage rebate liability was zero.

NOTE 6 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Authority participates in the West Virginia Other Post-employment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit plans to the WVPEIA Board of Trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Participating plan employers are billed per active health policy per month.

The Authority's OPEB liability (in thousands) was $9,752, $9,607, and $9,522 and total OPEB expense was $989, $949, and $3,484 for the years ended June 30, 2014, 2013, and 2012, respectively. The Authority has paid premiums (in thousands) of $844, $864, and $823, which represent approximately 85%, 91%, and 24% of the required contributions, respectively, for the years ended June 30, 2014, 2013, and 2012.

NOTE 6 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

During fiscal year 2012, the West Virginia Legislature passed legislation to provide alternate funding sources for the RHBT OPEB unfunded liability. In addition, the WVPEIA Finance Board imposed limits on the retiree subsidy currently provided for WVPEIA premiums for retirees. Future increases in the subsidy will be limited to no more than 3% per year. These actions have had a material impact on the amounts billed by the RHBT to the Authority in the current year as well as an expected material impact on amounts billed in the future, resulting in decreases in the recorded OPEB liability.

NOTE 7 - PENSION PLAN

All full-time Authority employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. 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, 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 the number of years of the employee's credited service at the time of retirement. PERS also provides delayed retirement, early retirement, death and disability benefits. The PERS issues an annual report, a copy of which can be obtained by contacting PERS at 4101 MacCorkle Avenue S.E., Charleston, WV 25304-1636 or by calling 1-800-654-1636.

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 19% of annual covered payroll, including the Authority's contribution of 14.5%, which is established by PERS. Effective July 1, 2014, a decrease in the contribution rate of .5%, will decrease the Authority's contribution rate to 14.0%. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. A summary of the Authority and employee contributions required and made for the years ended June 30 are as follows (in thousands):

	2014	2013	2012
Authority contributions	$ 2,065	$ 2,005	$ 2,061
Employee contributions	641	645	640
Total contributions	$ 2,706	$ 2,650	$ 2,701

NOTE 8 - NONCURRENT LIABILITITES

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30 (in thousands):

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 997	$ -	$ -	$ 997	$ 710
OPEB liability	9,607	989	(844)	9,752	-
Total noncurrent liabilities	$ 10,604	$ 989	$ (844)	$ 10,749	$ 710

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 1,000	$ -	$ (3)	$ 997	$ 703
OPEB liability	9,522	949	(864)	9,607	-
Total noncurrent liabilities	$ 10,522	$ 949	$ (867)	$ 10,604	$ 703

NOTE 9 - LEASES

The Authority leases certain facilities and service areas to third party businesses under operating lease agreements. The cost of the facilities and service areas were $36,180 and $35,917 at June 30 2014 and 2013, respectively (in thousands). Accumulated depreciation on the facilities and service areas was $23,879 and $22,652 at June 30, 2014 and 2013, respectively (in thousands).

The Authority receives both guaranteed payments and contingent payments under the leases. Aggregate rental income from the lease agreements was approximately $2,881 and $2,786 for the years ended June 30, 2014 and 2013, respectively. Total contingent rental income received was approximately $2,115 and $2,019 for the years ended June 30, 2014 and 2013, respectively. Future minimum rentals are as follows at June 30 (in thousands):

2015	$ 767
2016	767
2017	767
2018	767
2019	383
	$ 3,451

NOTE 10 - 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 and illnesses of employees; and natural disasters.

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees from a commercial insurer, and the West Virginia Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA and the commercial insurer, the Authority has transferred its risks related to health coverage for employees and job-related injuries of employees.

The Authority, for an annual premium, obtains insurance coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters through the West Virginia Board of Risk and Insurance Management, a public risk pool entity insuring the State of West Virginia, its component units, local government entities, and eligible not-for-profit organizations. Liability coverage provided to all insured entities under this policy is limited to $1,000,000 per occurrence, subject to an annual aggregate limit of coverage of $22,000,000. To further reduce its risk of loss, the Authority, for an annual premium paid to a commercial insurer, has obtained an additional liability policy which provides coverage of $10,000,000 over and above the coverage provided by the West Virginia Board of Risk and Insurance Management. For the fiscal years ended June 30, 2014, 2013, and 2012, the Authority's insurance coverage has been sufficient to meet all claims and settlements against the Authority.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is a defendant in certain legal proceedings pertaining to matters incidental to routine operations. Based on the current status of these legal proceedings, it is the opinion of Authority management and counsel that the ultimate resolution of these matters will not have a material effect on the Authority's financial position.

Construction Commitments

At June 30, 2014, the Authority had contractual commitments (in thousands) totaling $25,981 for various Turnpike System improvement projects. Subsequent to June 30, 2014, the Authority entered into additional contractual commitments totaling $11,898.

NOTE 12 - ACCOUNTING PRONOUNCEMENTS

Newly Adopted Statements Issued by GASB

The Authority has adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by GASB

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The Authority has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The GASB has also issued Statement No. 69¸*Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The Authority has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the governments beginning net pension liability. The Authority has not yet determined the effect that the adoption of GASB Statement No. 71 may have on its financial statements.

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Members of the
West Virginia Parkways Authority
Charleston, 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 Parkways Authority (the Authority) as of and for the year ended June 30, 2014, 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 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 2, 2014

OTHER FINANCIAL INFORMATION

WEST VIRGINIA PARKWAYS AUTHORITY

(A Component Unit of the State of West Virginia)

REVENUE BOND COVERAGE (1)

Year Ended June 30, 2014
(In Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Toll revenues	$ 84,907	$ 83,519	$ 83,907	$ 81,960	$ 79,871	$ 53,341	$ 56,563	$ 58,165	$ 61,858	$ 57,999
Adjustment to toll revenues per Trust Indentures	(177)	(81)	(333)	480	(683)	200	127	54	(52)	153
Total revenues	84,730	83,438	83,574	82,440	79,188	53,541	56,690	58,219	61,806	58,152
Operating expenses	81,789	80,574	80,006	79,496	75,760	71,272	71,340	69,124	70,176	68,253
Adjustments to operating expenses per Trust Indentures:										
Depreciation	(36,294)	(35,595)	(32,924)	(32,227)	(31,160)	(31,406)	(31,064)	(30,127)	(29,877)	(29,779)
Renewal and replacement provided for by reserves	(3,139)	(2,789)	(2,888)	(3,280)	(2,617)	(2,963)	(2,714)	(1,366)	(2,700)	(2,098)
Economic development and tourism costs	(5,087)	(5,132)	(6,748)	(5,000)	(5,102)	(5,020)	(5,590)	(6,166)	(6,004)	(6,051)
Other	1,801	(1,286)	(2,403)	(3,098)	(3,747)	(975)	(789)	1,141	(117)	(67)
Total operating expenses	39,070	35,772	35,043	35,891	33,134	30,908	31,183	32,606	31,478	30,258
Net revenues available for debt service	$ 45,660	$ 47,666	$ 48,531	$ 46,549	$ 46,054	$ 22,633	$ 25,507	$ 25,613	$ 30,328	$ 27,894
Revenue bond coverage items:										
Total debt service	10,529	11,186	10,541	10,515	10,670	12,218	11,852	10,876	10,801	10,505
Renewal and replacement reserve requirement per recommendation of consulting engineer	11,163	10,280	11,128	8,673	8,743	10,077	9,073	4,352	4,331	4,151
Total debt service and renewal and replacement	$ 21,692	$ 21,466	$ 21,669	$ 19,188	$ 19,413	$ 22,295	$ 20,925	$ 15,228	$ 15,132	$ 14,656
Coverage percentages:										
Total debt service (150% required since 2002, 125% previously required) (1)	433.66%	426.12%	460.40%	442.69%	431.62%	185.24%	215.21%	235.50%	280.79%	265.53%
Total debt service and renewal and replacement per recommendation of consulting engineer (100% required)	210.49%	222.05%	223.97%	242.59%	237.23%	101.52%	121.90%	168.20%	200.42%	190.32%

(1) On March 11, 1993, $111,245,000 of Series 1989 Revenue Bonds were refunded with 1993 Series Revenue Bonds issued under a Trust Indenture dated February 15, 1993. On February 1, 2002, $36,036,000 of the Series 1993 Revenue bonds were refunded with the 2002 Series Revenue Bonds issued under a Trust Indenture dated February 1, 2002. On February 18, 2003, $61,280,000 of the Series 1993 Revenue bonds were refunded with the Series 2003 Variable Rate Demand Refunding Bonds issued under a Trust Indenture dated February 18, 2003. During fiscal year 2009, the Series 2003 Bonds were refunded by the Series 2008 Variable Rate Demand Refunding Bonds issued under a Supplemental Trust Indenture dated July 2, 2008. The revenue bond coverage requirements increased to 150% from 125% under the 2003 trust indenture and remain under the 2008 trust indenture at 150%. The above presentation for each of the ten years ended June 30, 2014, relates only to debt service requirements under the 1993, 2002, 2003, and 2008 Trust Indentures. Under the terms of these trust indentures, revenues available for debt service are comprised of collected toll revenues less operating expenses, exclusive of depreciation, other costs funded by bond proceeds or designated established reserves and accruals, and further reduced by capital expenditures funded by amounts other than bond proceeds.