

**WEST VIRGINIA STATE RAIL AUTHORITY**  
**A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA**  
**AND THE WEST VIRGINIA DEPARTMENT OF TRANSPORTATION**  
**FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION**  
**YEARS ENDED JUNE 30, 2003 AND 2002**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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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, 2003 and 2002, 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, 2003 and 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2003, 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 22, 2003

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, 2003. Please read it in conjunction with the Authority's basic financial statements which follow this section.

During the year it was determined that certain amounts previously recorded for rail properties that had been disposed of over a period of years due to capital improvement projects undertaken by the Authority had not been removed from the fixed assets accounts. During the current year, the Authority conducted an extensive review of rail properties and determined the amount to be removed for prior years' retirements. The following discussion and analysis is based on the restated amounts.

### **FINANCIAL HIGHLIGHTS**

- The Authority's net assets increased \$1,590,559 as a result of this year's operations. This was primarily due to an additional appropriation from the Legislature of the State of West Virginia and an increase in freight revenue.
- The Authority's total operating expenses were \$3,370,877 for the fiscal year ended June 30, 2003 compared to \$3,352,533 for the fiscal year ended June 30, 2002 which was an increase of \$18,344.
- Net nonoperating revenues (expenses) were (\$387,923) for the fiscal year ended June 30, 2003 compared to (\$804,596) for the fiscal year ended June 30, 2002. The decrease in net nonoperating expenses represents lower losses on sales of assets. A single disposition on the Wheeling Terminal Line resulting in a loss of approximately \$515,000 occurred during the fiscal year ended June 30, 2002.
- During the year ended June 30, 2003, the Authority completed approximately \$2,800,000 in capital improvements on the South Branch Valley Railroad (SBVR). This included replacing 25,300 defective crossties, replacing 4.6 miles of light weight rail with heavier continuous welded rail, replacing areas of light jointed rail with heavier jointed rail and replacing three railroad crossings.
- Three six axle SD locomotives were purchased for the SBVR during the year ended June 30, 2003. Two were purchased with appropriations received from the West Virginia Legislature and one was purchased utilizing an Economic Development Grant.
- During the year ended June 30, 2003, numerous maintenance projects were completed on the West Virginia Central Railroad (WVCR) which included replacing 4,500 defective crossties and replacing washed out culverts. These projects amounted to over \$300,000.

**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 budget for the fiscal year ended June 30, 2003 consisted of funds received from the State of West Virginia General Fund, funds from an Economic Development Grant, funds from the Transportation Enhancement Program, 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 \$29,586,676 to \$31,177,235. The following tables summarize the Authority's financial position at June 30, 2003 and 2002 and the changes in its financial position for the years ended June 30, 2003 and 2002.

Table 1 - Statement of Net Assets

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Cash and cash equivalents	\$ 1,026,072	\$ 944,054	\$ 82,018	8.7%
Trade receivables	94,957	41,255	53,702	130.2%
Inventories	75,284	91,065	(15,781)	(17.3%)
Due from other governmental entities	440,292	1,233,736	(793,444)	(64.3%)
Other current assets	<u>13,000</u>	<u>11,683</u>	<u>1,317</u>	11.3%
Total current assets	<u>1,649,605</u>	<u>2,321,793</u>	<u>(672,188)</u>	(29.0%)
Non current assets				
Capital assets	41,993,347	39,492,077	2,501,270	6.3%
Accumulated depreciation	<u>(9,343,547)</u>	<u>(8,969,435)</u>	<u>(374,112)</u>	4.2%
Total non-current assets	<u>32,649,800</u>	<u>30,522,642</u>	<u>2,127,158</u>	7.0%
Total assets	<u>34,299,405</u>	<u>32,844,435</u>	<u>1,454,970</u>	4.4%
Current liabilities	1,407,785	1,199,169	208,616	17.4%
Long-term debt	1,585,004	1,921,670	(336,666)	(17.5%)
Other non-current liabilities	<u>129,381</u>	<u>136,920</u>	<u>(7,539)</u>	(5.5%)
Total liabilities	<u>3,122,170</u>	<u>3,257,759</u>	<u>(135,589)</u>	(4.2%)
Net assets				
Invested in capital assets, net of related debt	30,728,130	28,284,306	2,443,824	8.6%
Unrestricted	<u>449,105</u>	<u>1,302,370</u>	<u>(853,265)</u>	(65.5%)
Total net assets	<u>\$ 31,177,235</u>	<u>\$ 29,586,676</u>	<u>\$ 1,590,559</u>	5.4%

WEST VIRGINIA STATE RAIL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2 - Statements of Revenues

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percentage Increase (Decrease)</u>
Operating revenues				
Freight	\$ 1,717,117	\$ 1,538,689	\$ 178,428	11.6%
Miscellaneous	<u>180,723</u>	<u>162,265</u>	<u>18,458</u>	11.4%
Total operating revenues	<u>1,897,840</u>	<u>1,700,954</u>	<u>196,886</u>	11.6%
Depreciation expense	1,098,127	1,298,641	(200,514)	(15.4%)
Other operating expenses	<u>2,272,750</u>	<u>2,053,892</u>	<u>218,858</u>	10.7%
Total operating expenses	<u>3,370,877</u>	<u>3,352,533</u>	<u>18,344</u>	.5%
Operating income (loss)	<u>(1,473,037)</u>	<u>(1,651,579)</u>	<u>178,542</u>	(10.8%)
Nonoperating revenues (expenses)				
Interest income	11,061	13,563	(2,502)	(18.5%)
Interest expense	(135,520)	(154,083)	18,563	(12.0%)
Federal railroad rehabilitation assistance	90,625	287,046	(196,421)	(68.4%)
Gain (loss) on disposition of assets	(354,089)	(962,884)	608,795	(63.2%)
Other	<u>-</u>	<u>11,762</u>	<u>(11,762)</u>	(100.0%)
Total nonoperating revenues (expenses)	<u>(387,923)</u>	<u>(804,596)</u>	<u>416,673</u>	(51.8%)
Income (loss) before transfers	(1,860,960)	(2,456,175)	595,215	(24.2%)
Transfers in	<u>3,451,519</u>	<u>3,995,081</u>	<u>(543,562)</u>	(13.6%)
Change in net assets	<u>1,590,559</u>	<u>1,538,906</u>	<u>51,653</u>	3.4%
Total net assets - beginning	<u>29,586,676</u>	<u>28,047,770</u>	<u>1,538,906</u>	5.5%
Total net assets - ending	<u>\$ 31,177,235</u>	<u>\$ 29,586,676</u>	<u>\$ 1,590,559</u>	5.4%

The Authority received \$3,400,000 in general fund appropriations from the State of West Virginia at the beginning of fiscal year 2003. 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 general fund appropriation dollars received. This allowed the Authority to continue a rehabilitation program on the SBVR. The projects performed under this program increased the Authority's assets.

The Authority earned approximately \$1,700,000 dollars from the operations of the SBVR and approximately \$180,000 from miscellaneous operating revenues. This revenue is used to pay operating expenses of the SBVR. These revenues increased over 11% in the fiscal year ended June 30, 2003 compared to the previous year.

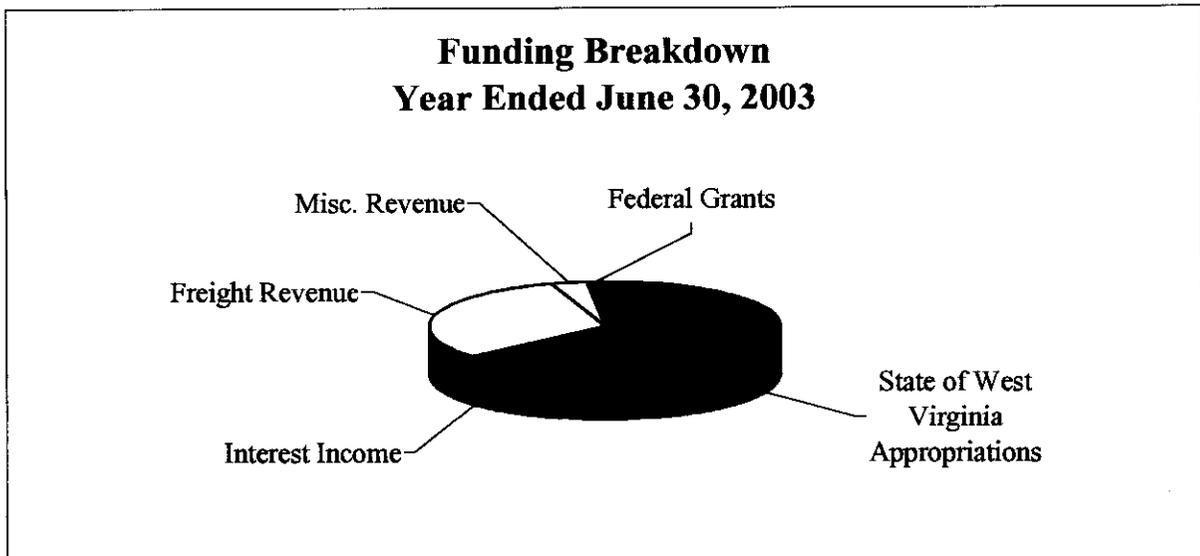
**WEST VIRGINIA STATE RAIL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Authority also received approximately \$100,000 from an economic development grant and \$90,000 from the transportation enhancement program. These funds were used to purchase a locomotive and to upgrade one of the Authority's existing locomotives.

Operating expenses increased by \$18,344 from the fiscal year ended June 30, 2002 to the fiscal year ended June 30, 2003; however, this was offset by an increase in revenues of \$196,886 in the fiscal year ended June 30, 2003. The overall operating loss decreased by \$178,542.

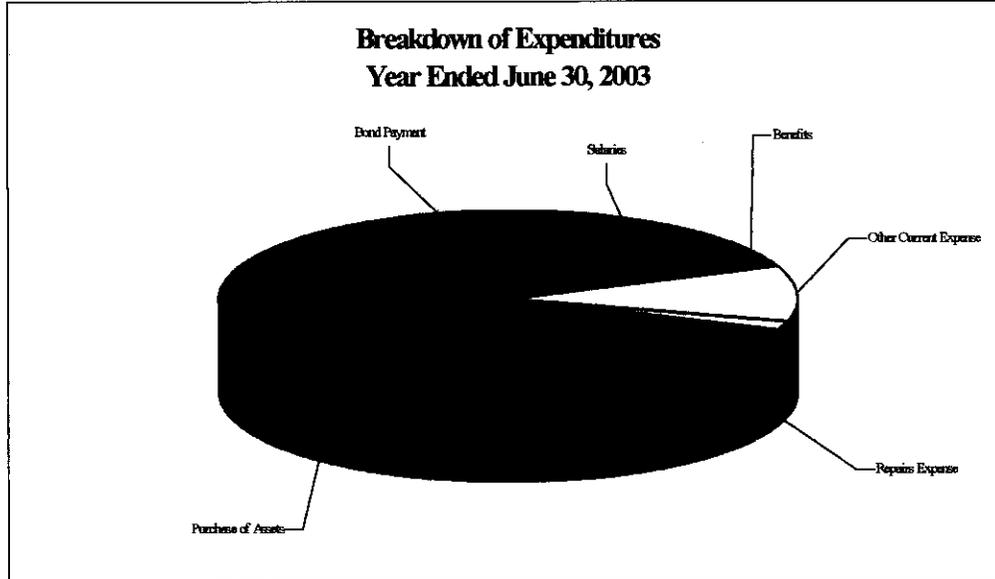
A \$354,089 loss on disposition of assets in the fiscal year ended June 30, 2003 versus a \$962,884 loss on disposition of assets in the fiscal year ended June 30, 2002 resulted in a decline of \$595,215 in losses before transfers. The increase in net assets of \$1,590,559 resulted primarily from the appropriations received from the State of West Virginia, funding from an Economic Development Grant, funding from the Transportation Enhancement Program and an increase in freight revenue. This money was used for capital improvements. Overall the Authority's financial position increased with an increase in net assets.

Chart 1 - Funding Breakdown - Year Ended June 30, 2003



WEST VIRGINIA STATE RAIL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Chart 2 - Expenditure Breakdown - Year Ended June 30, 2003



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At the end of the year ended June 30, 2003, the Authority had invested \$41,993,347 in a broad range of capital assets (see table below). This amount represents a net increase of \$2,501,270 or 6.3%, over the previous year.

Table 3 - Capital Assets

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 4,790,588	\$ -	\$ -	\$ 4,790,588
Rail properties	33,302,310	3,610,994	898,772	36,014,532
Transportation and other equipment	899,432	-	167,667	731,765
Office building and equipment	499,747	-	43,285	456,462
Total	<u>\$ 39,492,077</u>	<u>\$ 3,610,994</u>	<u>\$ 1,109,724</u>	<u>\$ 41,993,347</u>

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

- A total of \$3,610,994 was added to rail properties and \$898,772 was deleted from rail properties. \$210,952 was deleted from the transportation and other equipment and office building and equipment categories. Total related accumulated depreciation on deleted properties was approximately \$724,015.
- 25,300 defective crossties were replaced on the SBVR at a cost of approximately \$1,400,000.
- 131/132 stick rail and other track material was acquired to replace light weight jointed rail at a cost of approximately \$285,000.
- 4.6 miles of continuous welded rail was installed at a cost of approximately \$1,000,000.
- A washbay with an oil/water separator was installed at the SBVR shop at a cost of approximately \$291,000.
- Three grade crossings were replaced on the SBVR at a cost of approximately \$65,000.
- Three six axle SD locomotives were added to the SBVR locomotive fleet at a cost of approximately \$291,000.
- 4,500 defective crossties were replaced on the WVCR at a cost of approximately \$280,000.
- Six culverts were replaced on the WVCR at a cost of approximately \$27,000.

Capital equipment assets decreased by 18.6% from prior year. The deletions were for worn out obsolete items.

### **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 through July 2007. During the year ended June 30, 2003, \$444,000 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.

WEST VIRGINIA STATE RAIL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 4 - Debt Schedule

Year ending June 30	2004	2005	2006	2007	2008
	\$453,820	\$456,420	\$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 cash flow by approximately \$450,000 a year, which 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, 2003 enough capital improvements were completed on the SBVR to allow the weight restrictions on railcars to be increased to 286,000 pounds from Green Spring to Moorefield. This is a major accomplishment for the SBVR. The industry standard for railcar weight is increasing and by keeping up with rail industry standards the SBVR can assure that customers will benefit from better transportation rates that will allow them to stay competitive with rival companies. Increasing this weight restriction will result in increased revenue to the Authority. The SBVR increased the number of cars handled by 171 cars from the year ended June 30, 2002 to the year ended June 30, 2003. The outlook is good for continued growth on the SBVR and WVCR.

The Authority's year ending June 30, 2004 budget includes \$3,411,782 from the State of West Virginia and \$2,015,135 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.

In addition to continuing the rehabilitation program on the SBVR, the fiscal year June 30, 2004 budget will allow the Authority to continue to maintain the WVCR. This railroad has completed four years of operations and continues to be a strong economic factor to the areas that it serves. The ridership for the tourist excursions on the WVCR grew from 19,709 to 29,212 from the year ended June 30, 2002 to the year ended June 30, 2003.

As part of the Authority's responsibilities, the Authority 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, 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, 26836.

WEST VIRGINIA STATE RAIL AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2003 AND 2002

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	2003	2002
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 508,343	\$ 438,857
Restricted cash and cash equivalents	517,729	505,197
	1,026,072	944,054
Trade receivables	94,957	41,255
Inventories	75,284	91,065
Due from other governmental entities	440,292	1,233,736
Other current assets	13,000	11,683
Total current assets	1,649,605	2,321,793
<b>Noncurrent assets</b>		
Capital assets	41,993,347	39,492,077
Accumulated depreciation	(9,343,547)	(8,969,435)
Total noncurrent assets	32,649,800	30,522,642
Total assets	34,299,405	32,844,435
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	444,588	280,063
Accrued expenses	130,089	117,950
Compensated absences	65,426	62,529
Deferred revenue	-	367
Due to other governmental entities	431,016	421,594
Current maturities of long-term debt	336,666	316,666
Total current liabilities	1,407,785	1,199,169
<b>Noncurrent liabilities</b>		
Long-term debt	1,585,004	1,921,670
Compensated absences	129,381	136,920
Total noncurrent liabilities	1,714,385	2,058,590
Total liabilities	3,122,170	3,257,759
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	30,728,130	28,284,306
Unrestricted	449,105	1,302,370
Total net assets	\$ 31,177,235	\$ 29,586,676

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, 2003 AND 2002

	2003	2002
		Restated
Operating revenues		
Freight	\$ 1,717,117	\$ 1,538,689
Miscellaneous	180,723	162,265
Total operating revenues	1,897,840	1,700,954
Depreciation Expense	1,098,127	1,298,641
Other operating expenses	2,272,750	2,053,892
Total operating expenses	3,370,877	3,352,533
Operating income (loss)	(1,473,037)	(1,651,579)
Nonoperating revenues (expenses)		
Interest income	11,061	13,563
Interest expense	(135,520)	(154,083)
Federal railroad rehabilitation assistance	90,625	287,046
Gain (loss) on disposition of assets	(354,089)	(962,884)
Other	-	11,762
Total nonoperating revenues (expenses)	(387,923)	(804,596)
Income (loss) before transfers	(1,860,960)	(2,456,175)
Transfers in	3,451,519	3,995,081
Change in net assets	1,590,559	1,538,906
Total net assets - beginning	29,586,676	28,047,770
Total net assets - ending	\$ 31,177,235	\$ 29,586,676

The Accompanying Notes Are An Integral  
 Part Of These Financial Statements

WEST VIRGINIA STATE RAIL AUTHORITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Cash flows from operating activities		
Cash received from customers and government	\$ 1,843,771	\$ 1,679,259
Cash paid to employees	(720,905)	(718,050)
Cash paid to suppliers and government	(1,318,741)	(1,351,742)
Net cash provided (used) by operating activities	(195,875)	(390,533)
Cash flows from noncapital financing activities		
State of West Virginia operating assistance	4,244,963	2,751,919
Net cash provided (used) by noncapital financing activities	4,244,963	2,751,919
Cash flows from capital and related financing activities		
Federal and state flood disaster recovery assistance	90,625	287,046
Purchase of capital assets	(3,633,236)	(2,424,569)
Cash received from sale of capital assets	-	41,763
Interest paid	(135,520)	(154,083)
Principal paid	(300,000)	(280,000)
Net cash provided (used) by capital and related financing activities	(3,978,131)	(2,529,843)
Cash flows from investing activities		
Receipts of interest	11,061	13,563
Net cash provided (used) by investing activities	11,061	13,563
Increase (decrease) in cash and cash equivalents	82,018	(154,894)
Cash and cash equivalents, beginning of year including restricted cash	944,054	1,098,948
Cash and cash equivalents, end of year including restricted cash	\$ 1,026,072	\$ 944,054
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating loss	\$ (1,473,037)	\$ (1,651,579)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,098,127	1,298,641
Amortization	(16,666)	(16,666)
Changes in operating assets and liabilities		
Increase (decrease) in operating accounts payable	218,387	74,994
(Increase) decrease in inventories	15,781	33,880
(Increase) decrease in other current assets	(1,317)	(239)
Increase (decrease) in compensated absences	(4,642)	27,553
Increase (decrease) in due to other governmental entities	9,422	(125)
Increase (decrease) in deferred revenue	(367)	-
Increase (decrease) in accrued expenses	12,139	(10,953)
(Increase) decrease in receivables	(53,702)	(5,029)
(Increase) decrease in due from other governmental entities	-	(141,010)
Net cash provided (used) by operating activities	\$ (195,875)	\$ (390,533)

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, 2003 AND 2002

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 in the financial statements of the State of West Virginia.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**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 include 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

RESTRICTED CASH AND CASH EQUIVALENTS - Restricted cash and cash equivalents of \$517,729 and \$505,197, at June 30, 2003 and 2002 respectively, are invested in a U.S. Government securities money market mutual fund reported at fair value. The carrying amounts 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, except for land which is not depreciated, are depreciated using the straight-line method over the estimated useful lives of the assets ranging from five to forty years. Buildings and land with an initial cost of \$25,000 or more and furniture and equipment 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.

WEST VIRGINIA STATE RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2003 AND 2002

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**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, 2003 and 2002, there were no restricted net assets.

WEST VIRGINIA STATE RAIL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2003 AND 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3 - RESTATEMENT OF PRIOR YEAR AMOUNTS

During the year it was determined that certain amounts previously recorded for rail properties that had been disposed of over a period of years due to capital improvement projects undertaken by the Authority had not been removed from the accounts. During the current year, the Authority conducted an extensive review of rail properties and determined the amount to be removed for prior years' retirement. The effect of the removal of these assets from the records on the Authority's financial statements for the year ended June 30, 2002 are as follows:

	As Previously <u>Reported</u>	<u>Adjustment</u>	As <u>Restated</u>
Total capital assets (net)	\$ 34,455,007	\$ (3,932,365)	\$ 30,522,642
Total assets	36,776,800	(3,932,365)	32,844,435
Net assets - investment in capital assets, net of debt	32,216,671	(3,932,365)	28,284,306
Total net assets	33,519,041	(3,932,365)	29,586,676
Loss on disposal	(515,179)	(447,705)	(962,884)
Change in net assets	1,986,611	(447,705)	1,538,906

WEST VIRGINIA STATE RAIL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2003 AND 2002

NOTE 4 - CAPITAL ASSETS

Capital assets balances at June 30, 2002, and 2003, and activity for the year ended June 30, 2003 are summarized below:

	June 30, 2002			June 30, 2003
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets				
Land	\$ 4,790,588	\$ -	\$ -	\$ 4,790,588
Rail properties	33,302,310	3,610,994	898,772	36,014,532
Transportation and other equipment	899,432	-	167,667	731,765
Office building and equipment	499,747	-	43,285	456,462
Total capital assets	<u>\$ 39,492,077</u>	<u>\$ 3,610,994</u>	<u>\$ 1,109,724</u>	<u>\$ 41,993,347</u>
Accumulated depreciation				
Rail properties	\$ 8,083,640	\$ 1,027,877	\$ 513,069	\$ 8,598,448
Transportation and other equipment	579,658	54,845	167,668	466,835
Office building and equipment	306,137	15,405	43,278	278,264
Total accumulated depreciation	<u>\$ 8,969,435</u>	<u>\$ 1,098,127</u>	<u>\$ 724,015</u>	<u>\$ 9,343,547</u>

NOTE 5 - 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, 2003 and 2002, the Authority's premium on notes payable was \$66,670 and \$83,336, respectively, and amortization expense related to the premium was \$16,666 per year. The notes are secured by gross operating receipts of the Authority, excluding any transfers from the State of West Virginia.

Total notes payable at June 30, 2002	\$ 2,238,336
Less principle retirement	(300,000)
Less amortization of premium	<u>(16,666)</u>
Total notes payable at June 30, 2003	1,921,670
Less current portion	<u>(336,666)</u>
Long-term notes payable	<u>\$ 1,585,004</u>

WEST VIRGINIA STATE RAIL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2003 AND 2002

NOTE 5 - 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 June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 320,000	\$ 133,820	\$ 453,820
2005	345,000	111,420	456,420
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>
	1,855,000	423,900	2,278,900
Premium	66,670	-	66,670
Amortization of premium	-	<u>(66,670)</u>	<u>(66,670)</u>
	<u>\$ 1,921,670</u>	<u>\$ 357,230</u>	<u>\$ 2,278,900</u>

NOTE 6 - DUE TO/FROM OTHER GOVERNMENTAL ENTITIES

At June 30, 2003 and 2002, the Authority had amounts due to the Department of Transportation, Division of Highways of \$431,016 and \$421,594, respectively. At June 30, 2003 and 2002, the Authority had amounts due from the State of West Virginia of \$440,292 and \$1,233,736, respectively.

NOTE 7 - SIGNIFICANT CUSTOMERS AND FUNDING SOURCES

During the years ended June 30, 2003 and 2002, approximately 94% and 96%, respectively, of the Authority's freight traffic was attributable to a single customer. In addition, during the years ended June 30, 2003 and 2002, the Authority received transfers of \$3,451,519 and \$3,995,081, 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 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia established the Board of Risk and Insurance Management (BRIM), 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 9 - RETIREMENT PLAN

**PLAN DESCRIPTION** - The Authority contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. 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, 2003 AND 2002

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NOTE 9 - 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, 2003, 2002 and 2001 were \$69,627, \$66,516 and \$69,672, respectively, equal to the required contributions for each year.

NOTE 10 - 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 \$129,381 and \$136,920 as of June 30, 2003 and 2002 respectively, is included in other accrued liabilities in the statements of net assets.

During the years ended June 30, 2003 and 2002, 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.

ADDITIONAL INFORMATION



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, 2003, and have issued our report thereon dated August 22, 2003. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also 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 22, 2003.

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 & Stalmaker, PLLC*

August 22, 2003

WEST VIRGINIA STATE RAIL AUTHORITY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2003

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2003-1	Financial Reporting - Capital Assets ( <i>Internal Control</i> )
Criteria:	The management of the Authority is responsible for establishing and maintaining adequate controls that are sufficient to ensure accounting for capital assets and related depreciation in accordance with Government Auditing Standards Board Statement No. 34 <i>Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments</i> (GASB 34).
Condition:	During the year ended, the Authority undertook a significant rail tie replacement project throughout the rail system. As a part of this process, management also undertook a project to reconcile the capital asset detail listing to supporting documentation and physical existence. This review identified several items that were included on the capital asset detail that should have been deleted during previous fiscal years.
Context:	The total restatement to the beginning net asset balance for the year ended June 30, 2002 as reported on the Statement of Net Assets was approximately \$3,600,000 out of total net assets of approximately \$32,200,000.
Cause:	Information maintained on the capital asset detail was not adjusted for rehabilitation projects that replaced existing assets.
Effect:	Information previously reported in the financial statements were restated.
Recommendation:	We recommend that the Authority continue to develop policies and procedures to ensure that data included in the capital asset detail reports is reconciled and agrees with underlying supporting documentation. Furthermore, the Authority should ensure that policies and procedures are in place to address the disposal of capital assets when new projects are undertaken.