WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

FINANCIAL REPORT WITH OTHER FINANCIAL INFORMATION

Years Ended June 30, 2018 and 2017

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BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
West Virginia Alcohol Beverage Control Administration
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Alcohol Beverage Control Administration (the Administration), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Alcohol Beverage Control Administration as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2017, were audited by Gibbons & Kawash, A.C., who merged with Brown, Edwards & Company, L.L.P. as of January 1, 2018, and whose report dated October 2, 2017, expressed an unmodified opinion on those statements.

Emphasis of Matter Regarding Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Administration and do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, and the schedule of proportionate share of the net pension liability, the schedule of proportionate share of the net OPEB liability, schedule of contributions to the PERS, and the schedule of contributions to the RHBT on pages 29 through 34 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 Administration's basic financial statements. The accompanying schedules on pages 35 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules on pages 35 through 39 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Administration's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 28, 2018

The West Virginia Alcohol Beverage Control Administration (the Administration) was created by the West Virginia Legislature in 1935 to give effect to the mandate of the people expressed in the repeal of the state prohibition amendment, and to assure the greatest degree of personal freedom that is consistent with the health, safety, and good morals of the people of West Virginia.

During the first fifty-six (56) years of its existence, the Administration functioned as the exclusive wholesaler and retailer of liquor in West Virginia. On February 27, 1990, with the passage of senate bill 337, legislative action was taken to discontinue the retail sale of alcoholic beverages by the State of West Virginia. During the fiscal year ended 1991, public bids were held in August 1990, January 1991, and May 1991. The bids resulted in the sale of all 98 zones offered and the possibility of 214 privately owned liquor stores being opened in West Virginia. The sale of State owned liquor stores and the conversion of State owned liquor inventories enabled the Administration to transfer profits of $26,500,000 to the West Virginia General Revenue Fund.

On March 13, 1999, House Bill 3023 was passed. All Licenses within the 98 zones were re-bid starting on March 3, 2000. The Administration sold licenses to 164 stores providing revenues to the state of $22,227,651. An additional eighteen (18) Class B retail licenses were bid on April 17, 2002. The Retail Liquor Licensing Board ("RLLB") directed the bid, which offered the remaining licenses for eight years ending on June 30, 2010. Five (5) of the remaining licenses were sold, providing revenues of $215,903.

On June 2, 2009, House Bill 105 was passed. House Bill 105 mandated that the RLLB re-bid all Class A and Class B liquor licenses for an additional ten (10) years beginning July 1, 2010. All Licensees within the 98 zones were given the opportunity to elect the Purchase Option on their existing retail outlet(s) provided they met the requirements to operate a Class A freestanding liquor retail outlet pursuant to the Rules and the Code. During Phase I, 46 stores took the Purchase Option which ended on February 17, 2010. An additional 119 licenses were sold during Phase II, the License Bidding Process, which ended on April 30, 2010. An additional ten (10) licenses were sold during Phase III, the Subsequent License Bidding Process, which ended on June 25, 2010. During fiscal year 2011, an additional license was sold during an extended Phase III License Bidding Process, which ended on August 6, 2010. The three phases provided revenues totaling $37,660,998 for 175 retail outlets. Two (2) additional licenses were sold during a continuation of extended Phase III License Bidding Process, which ended November 4, 2010. The continuation of extended Phase III provided revenues totaling $244,681 for the three (3) additional retail outlets added. Three (3) additional retail outlets still remain available for bid at the RLLB's discretion.

During the 2012 fiscal year, the Administration moved Administrative Offices from the Kanawha City, West Virginia, location to the Lottery Building on Pennsylvania Avenue in Charleston, West Virginia. The Administration has continued to increase the efficiency of overall operations and made numerous improvements to the Distribution Center in Nitro, West Virginia.

During the 2017 fiscal year, the Administration changed the mark-up on alcoholic liquors from 28% to 32% effective May 1, 2017. 2017 fiscal year sales dollars increased 0.32% and case volume sales decreased 0.94% from the prior year. The Administration made an additional transfer to the General Revenue Fund in the amount of $7,000,000.

(Continued)

During the 2018 fiscal year, sales dollars increased 4.71% and case volume sales increased 1.75% from the prior year. The Administration implemented Governmental Accounting Standards Board (GASB) Statement No. 75. GASB 75 requires governmental employers to recognize and measure liabilities, deferred outflows and inflows of resources, and expenses relating to other postemployment benefits (OPEB). Since the Administration contributes to an OPEB Plan, the Administration will recognize their proportionate share of the collective OPEB amounts during this implementation.

As management of the Administration, we offer readers of the Administration's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2018 and 2017. Please read it in conjunction with the Administration's financial statements, which begin on page 9.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position, and the Statements of Cash Flows. These statements provide information about the activities of the Administration. Following is an additional discussion of the significant financial statement items and the changes in those items from the prior year due to recent events and activities of the Administration, current economic factors, and other factors affecting the Administration's financial activities.

The Statements of Net Position represent the difference between the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Administration and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private - sector companies. Over time, increases or decreases in the Administration's net position are one indicator of whether its financial health is improving, stable or deteriorating. The Statements of Revenues, Expenses, and Changes in Fund Net Position reflect the Administration's revenues, such as proceeds from the sales of alcoholic beverages as the exclusive wholesaler of liquor in the State, and related fees from licenses, permits and administrative hearing fines, and its expenses, such as costs of sales, general and administrative costs and depreciation. The notes to the financial statements provide information that is essential to the full understanding of the data provided in the financial statements. The financial statements of the Administration are prepared in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

The following is a condensed summary of financial information as of and for the years ended June 30, 2018, 2017 and 2016, respectively.

	2018	2017	2016
Statements of Net Position:			
Current assets	$ 15,333,749	$ 13,827,757	$ 20,409,689
Capital assets, net	1,708,722	1,796,452	2,073,230
Total assets	$ 17,042,471	$ 15,624,209	$ 22,482,919
Deferred outflows of resources	$ 558,017	$ 979,931	$ 917,011
Current liabilities	$ 3,371,432	$ 3,596,465	$ 3,565,649
Noncurrent liabilities	3,076,160	4,395,837	3,714,755
Total liabilities	$ 6,447,592	$ 7,992,302	$ 7,280,404
Deferred inflows of resources	$ 620,955	$ 178,549	$ 770,143
Net position, net investment in capital assets	$ 1,708,722	$ 1,796,452	$ 2,073,230
Net position, unrestricted net position	8,823,219	6,636,837	13,276,153
Total net position	$ 10,531,941	$ 8,433,289	$ 15,349,383

(Continued)

FINANCIAL HIGHLIGHTS (Continued)

	2018	2017	2016
Statements of Revenues, Expenses, and Changes in Fund Net Position			
Sales	$ 97,398,692	$ 93,039,242	$ 92,744,686
Licenses, permits and fees	3,980,572	3,793,583	3,678,645
Administrative hearing fees	46,650	59,075	73,371
Total operating revenues	101,425,914	96,891,900	96,496,702
Cost of sales	73,689,545	72,197,394	72,212,321
General and administrative	4,955,726	5,162,523	5,402,985
Depreciation	142,696	292,769	322,932
Total operating expenses	78,787,967	77,652,686	77,938,238
Operating income	22,637,947	19,239,214	18,558,464
Nonoperating revenues (expenses):			
Other	$ 127,577	-	-
Grants	195,908	161,898	129,243
Statutory distributions	(21,119,925)	(26,317,206)	(18,383,364)
	(20,796,440)	(26,155,308)	(18,254,121)
Change in net position	$ 1,841,507	$ (6,916,094)	$ 304,343

STATEMENTS OF NET POSITION

Total assets increased $1,418,262 from $15,624,209 at June 30, 2017, to $17,042,471 at June 30, 2018 as a result of increased operating income. Total assets decreased $6,858,710 from $22,482,919 at June 30, 2016, to $15,624,209 at June 30, 2017, as a result of an additional transfer of $7,000,000 to the General Revenue Fund. Total liabilities decreased $1,544,710 from $7,992,302 at June 30, 2017, to $6,447,592 at June 30, 2018 due to the timing of cash payments and a decrease in noncurrent liabilities. Total liabilities increased $711,898 from $7,280,404 at June 30, 2016, to $7,992,302 at June 30, 2017, due to the timing of cash payments.

Effective July 1, 2017, the Administration adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The Administration determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the increase to beginning net position of implementing this change of $257,145 as of July 1, 2017, which is the net OPEB liability of $2,421,222 less deferred outflows of resources related to OPEB contributions of $169,007 as of that date and the June 30, 2017, liability of $2,509,360 for postemployment liabilities reported in accordance with GASB Statement No. 45, which is superseded by GASB Statement No. 75.

STATEMENTS OF NET POSITION (Continued)

Deferred outflows of resources from pension and OPEB amounts are $558,017, $979,931 and $917,011 and deferred inflows of resources from pension and OPEB amounts are $620,955, $178,549 and $770,143 for the years ended June 30, 2018, 2017 and 2016, respectively. The changes in those amounts are in part determined by information provided by the West Virginia Public Employees Retirement System (PERS) annually for the change in the net pension liability and by the West Virginia Retiree Health Benefit Trust (RHBT) annually for the change in the net OPEB liability.

The Administration's net position totaled $10,531,941, $8,433,289, and $15,349,383, at June 30, 2018, 2017, and 2016, respectively. Net position represented 62%, 54%, and 68%, of the Administration's total assets for each of the years ended June 30, 2018, 2017, and 2016, respectively.

OPERATING RESULTS

The Administration had operating income for the year ended June 30, 2018 of $22,637,947 which was an increase of 17.7% from the year ended June 30, 2017, which was $19,239,214. The Administration had operating income for the year ended June 30, 2017 of $19,239,214 which was an increase of 3.7% from the year ended June 30, 2016, which was $18,558,464. Additionally, unit quantities of sales measured in cases were 702,570, 690,493, and 697,031, for the years ended June 30, 2018, 2017, and 2016, respectively. Operating income fluctuates in response to sales dollars and quantities on an annual basis. Also, during fiscal year 2017, the Administration changed the mark-up from 28% to 32% effective May 1, 2017.

NONOPERATING RESULTS

The Administration's non-operating expense, net for the years ended June 30, 2018, 2017, and 2016 were $20,796,440, $26,155,308, and $18,254,121, respectively. The fluctuations noted in non-operating expense are predominately due to the amount of statutory distributions. Statutory distributions related to ongoing liquor sales are transferred each year to the extent that funds are available. The statutory distributions are paid to the State of West Virginia's General Revenue Fund.

CHANGES IN OPERATIONS

During the years ended June 30, 2018, 2017, and 2016, no major changes were made in the Administration's operations.

CONTACTING THE ADMINISTRATION'S FINANCIAL MANAGEMENT

The above financial highlights are designed to provide a general overview of the Administration's operations and insight into the following financial statements. Questions about this report or requests for additional information should be directed to the Administration's central office located at 900 Pennsylvania Avenue, 4th Floor, Charleston, West Virginia, 25302, (304) 356-5500.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 14,823,525	$ 13,373,809
Inventory	39,864	25,819
Accounts receivable	470,360	428,129
Total current assets	15,333,749	13,827,757
NONCURRENT ASSETS		
Capital assets, net (Note 4)	1,708,722	1,796,452
Total assets	17,042,471	15,624,209
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from OPEB and pension amounts (Notes 6 and 7)	558,017	979,931
LIABILITIES		
CURRENT LIABILITIES		
Accrued expenses	230,168	228,412
Accounts payable	3,141,264	3,368,053
Total current liabilities	3,371,432	3,596,465
NONCURRENT LIABILITIES		
Accrued annual leave	244,304	237,756
Other postemployment liabilities	-	2,509,360
Net OPEB liability (Note 6)	2,023,319	-
Net pension liability (Note 7)	808,537	1,648,721
Total noncurrent liabilities	3,076,160	4,395,837
Total liabilities	6,447,592	7,992,302
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from OPEB and pension amounts (Notes 6 and 7)	620,955	178,549
NET POSITION		
Net investment in capital assets	1,708,722	1,796,452
Unrestricted	8,823,219	6,636,837
Total net position	$ 10,531,941	$ 8,433,289

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Sales	$ 97,398,692	$ 93,039,242
Licenses, permits and fees	3,980,572	3,793,583
Administrative hearing fines	46,650	59,075
	101,425,914	96,891,900
OPERATING EXPENSES:		
Cost of sales	73,689,545	72,197,394
General and administrative	4,955,726	5,162,523
Depreciation	142,696	292,769
	78,787,967	77,652,686
Operating income	22,637,947	19,239,214
NONOPERATING REVENUES (EXPENSES):		
Grants	195,908	161,898
Statutory distributions	(21,119,925)	(26,317,206)
Other (Note 6)	127,577	-
	(20,796,440)	(26,155,308)
Change in net position	1,841,507	(6,916,094)
NET POSITION, beginning of year	8,433,289	15,349,383
Cumulative effect of adoption of accounting principle (Note 3)	257,145	-
NET POSITION, beginning of year, as restated	8,690,434	15,349,383
NET POSITION, end of year	$ 10,531,941	$ 8,433,289

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

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Cash received from customers and users	$ 101,383,683	$ 96,830,687
Cash paid to employees	(3,738,583)	(3,861,864)
Cash paid to suppliers	(75,216,401)	(73,429,289)
Net cash provided by operating activities	22,428,699	19,539,534
NONCAPITAL FINANCING ACTIVITIES		
Receipts from nonoperating grants	195,908	161,898
Distributions to primary government	(21,119,925)	(26,317,206)
Net cash used in noncapital financing activities	(20,924,017)	(26,155,308)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(54,966)	(15,991)
Increase (decrease) in cash and cash equivalents	1,449,716	(6,631,765)
CASH AND CASH EQUIVALENTS, beginning	13,373,809	20,005,574
CASH AND CASH EQUIVALENTS, ending	$ 14,823,525	$ 13,373,809
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-cash special funding contribution related to OPEB	$ 127,577	$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 22,637,947	$ 19,239,214
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	142,696	292,769
Pension expense	130,427	244,865
OPEB Expense	235,468	-
Changes in operating accounts:		
Increase in accounts receivable	(42,231)	(61,213)
(Increase) decrease in inventory	(14,045)	11,380
Increase (decrease) in accounts payable and accrued expense	(225,033)	30,816
Increase in postemployment liabilities	-	100,291
Increase in deferred outflows of resources	(443,078)	(309,777)
Increase (decrease) in accrued annual leave	6,548	(8,811)
Net cash provided by operating activities	$ 22,428,699	$ 19,539,534

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

Note 1. Financial Reporting Entity

The West Virginia Alcohol Beverage Control Administration (the Administration) is a proprietary fund and governmental instrumentality of the State of West Virginia (the State), created under the provisions of Chapter 60, Article 1 of the West Virginia Code, as amended.

The Administration's mission is to give effect to the mandate of the people expressed in the repeal of the state prohibition amendment, and to assure the greatest degree of personal freedom that is consistent with the health, safety, and good morals of the people of West Virginia. This is accomplished by issuing licenses in accordance with Senate Bill 337 and acting as the wholesaler of liquor to retailers in the State.

The Administration's financial statements are included in the State of West Virginia's Comprehensive Annual Financial Report as a proprietary fund. The Administration has considered all potential component units to be included in the Administration's reporting entity by applying the criteria set forth in GAAP. These criteria include consideration of organizations for which the Administration is financially accountable, or organizations for which the nature and significance of their relationship with the Administration are such that exclusion would cause the Administration's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Administration has no component units.

Note 2. Significant Accounting Policies

Basis of accounting

The Administration is accounted for as a special purpose government engaged in business type activities. In accordance with 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.

Cash equivalents

Cash and cash equivalents consist primarily of cash on deposit with the State Treasurer's Office and cash on hand. The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions in accordance with West Virginia Code. Cash and cash equivalents are carried at amortized cost. All deposits are available with overnight notice.

Inventories

Inventories are presented at the lower of cost (first-in, first-out method) or market.

Capital assets

Capital assets are reported at historical cost. Capital assets are defined by the Administration as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets; buildings (31- 40 years) and equipment (3-10 years).

Note 2. Significant Accounting Policies (Continued)

Employee benefits

Employees fully vest in all earned but unused vacation and the Administration accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Former leave conversion and postemployment benefits are presented in the accompanying financial statements for the year ended June 30, 2017, in accordance with GASB 45. See Note 3 for the implementation of a new accounting principle related to other postemployment benefits.

Postemployment benefits other than pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHBT and additions to/deductions from RHBT's fiduciary net position have been determined on the same basis as they are reported by The West Virginia Retiree Health Benefit Trust Fund (RHBT). For this purpose, RHBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for certain pooled investments, money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Public Employees Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the PERS are reported at fair value.

Deferred outflows of resources / deferred inflows of resources

The statement of net position reports a separate financial statement element called *deferred outflows of* resources. This financial statement element represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until that time. The Administration reports certain OPEB and pension related amounts as deferred outflows of resources on the statement of net position.

The statement of net position reports a separate financial statement element called *deferred inflows of resources*. This financial statement element represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Administration reports certain OPEB and pension related amounts as deferred inflows of resources on the statement of net position.

Note 2. Significant Accounting Policies (Continued)

Net position

Net position is presented as unrestricted or as investment in capital assets. Investment in capital assets consists of all capital assets, less accumulated depreciation. All remaining net position is considered unrestricted. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

Operating revenues and expenses

Operating revenues and expenses for the Administration are revenues and expenses that result from providing services and producing and delivering goods and/or services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles. The significant estimates and assumptions that affect the reporting of amounts of assets and liabilities at the statement of net position dates and revenues and expenses for the years then ended are those required in the determination of accumulated depreciation. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

Note 3. Cumulative Effect of Adoptions of Accounting Principle

Effective July 1, 2017, the Administration adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The Administration determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the increase to beginning net position of implementing this change of $257,145 as of July 1, 2017, which is the net OPEB liability of $2,421,222 less deferred outflows of resources related to OPEB contributions of $169,007 as of that date and the June 30, 2017, liability of $2,509,360 for postemployment liabilities reported in accordance with GASB Statement No. 45, which is superseded by GASB Statement No. 75. The Administration further determined that it was not practical to determine the amounts of all other deferred inflows of resources and deferred outflows of resources related to OPEB as of July 1, 2017 and these amounts are not reported.

Note 4. Capital Assets

A summary of capital assets as of and for the year ended June 30, 2018 and 2017, follows:

June 30, 2018	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 611,381	$ -	$ -	$ 611,381
Capital assets, being depreciated:				
Buildings	2,040,920	3,350	-	2,044,270
Equipment	1,690,308	52,347	39,524	1,703,131
Total capital assets, being depreciated	3,731,228	55,697	39,524	3,747,401
Less accumulated depreciation for:				
Buildings	(1,223,564)	(81,237)	-	(1,304,801)
Equipment	(1,322,593)	(100,962)	78,296	(1,345,259)
Total accumulated depreciation	(2,546,157)	(182,199)	78,296	(2,650,060)
Total capital assets, being depreciated, net	1,185,071	(126,502)	38,772	1,097,341
Total capital assets, net	$ 1,796,452	$ (126,502)	$ 38,772	$ 1,708,722

June 30, 2017	Balance	Increases	Decreases	Balance
Capital assets, not depreciated:				
Land	$ 611,381	$ -	$ -	$ 611,381
Capital assets, being depreciated:				
Buildings	2,029,010	11,910	-	2,040,920
Equipment	1,702,848	4,940	17,480	1,690,308
Total capital assets, being depreciated	3,731,858	16,850	17,480	3,731,228
Less accumulated depreciation for:				
Buildings	(1,145,684)	(77,880)	-	(1,223,564)
Equipment	(1,124,325)	(214,930)	16,662	(1,322,593)
Total accumulated depreciation	(2,270,009)	(292,810)	16,662	(2,546,157)
Total capital assets, being depreciated, net	1,461,849	(275,960)	(818)	1,185,071
Total capital assets, net	$ 2,073,230	$ (275,960)	$ (818)	$ 1,796,452

Note 5. Lease

The Administration has entered into an operating lease with the West Virginia Lottery Commission (Lessor) for its headquarters which expires in June 2023. Rent expense for the years ended June 30, 2018 and 2017 was $207,690 and $206,435, respectively. The lease contains a clause that allows the Administration to cancel the lease with 30 days written notice to the Lessor. The Administration's future minimum lease payments under the current terms of the lease are $202,200 per year through the year ending June 30, 2023.

Note 6. Other Postemployment Benefits

Plan description

The West Virginia Other Postemployment Benefit Plan (the OPEB Plan) is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the OPEB Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The OPEB Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. OPEB Plan benefits are established and revised by PEIA and the RHBT management with approval of their Finance Board. The PEIA issues a publically available financial report of the RHBT that can be obtained at www.peia.wv.gov or by writing to the West Virginia Public Employees Insurance Agency, 601 57th Street, SE Suite 2, Charleston, WV 25304.

Benefits provided

Administration employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the PERS or meet certain other eligibility requirements of other CPRB sponsored retirement plans. RHBT provides medical and prescription drug insurance and life insurance benefits to those qualified participants. Life insurance is provided through a vendor and is fully funded by member contributions. The medical and prescription drug insurance is provided through two options; Self-Insured Preferred Provider Benefit Plan - primarily for non-Medicare-eligible retirees and spouses or External Managed Care Organizations - primarily for Medicare-eligible retirees and spouses.

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan. Under this arrangement, the vendor assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option. The RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement. The Plan is a closed plan to new entrants.

Note 6. Other Postemployment Benefits (Continued)

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2018, 2017, and 2016, respectively, were:

	2018	2017 1/1/17 – 6/30/17	2017 7/1/16-12/31/16	2016
Paygo Premium	$ 177	$ 135	$ 196	$ 163

Contributions to the OPEB plan from the Administration were $171,450, $169,009, and $166,788 for the years ended June 30, 2018, 2017, and 2016, respectively.

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

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

- Members hired before July 1, 1988, may convert accrued sick or leave days into 100% of the required retiree healthcare contribution.

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

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

Contributions by Nonemployer Contributing Entities in Special Funding Situations

The State of West Virginia is a nonemployer contributing entity that provides funding through SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State provides a supplemental pre-funding source dedicating $30 million annually to the RHBT Fund from annual collections of the Personal Income Tax Fund and dedicated for payment of the unfunded liability of the RHBT. The $30 million transferred pursuant to this Code shall be transferred until the Governor certifies to the Legislature that an independent actuarial study has determined that the unfunded liability of RHBT has been provided for in its entirety or July 1, 2037, whichever date is later. This funding is to the advantage of all RHBT contributing employers.

(Continued)

Note 6. Other Postemployment Benefits (Continued)

Contributions by Nonemployer Contributing Entities in Special Funding Situations (Continued)

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of $5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The $5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting OPEB liability relief to the 55 County Boards of Education effective July 1, 2012. The public school support plan (PSSP) is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the State Code. This special funding under the school aid formula subsidizes employer contributions of the county boards of education.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Administration reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Administration. The amount recognized by the Administration as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Administration was as follows:

The Administration's proportionate share of the net OPEB liability	$ 2,023,319
State's special funding proportionate share of the net OPEB liability associated with the Administration.	415,592
Total portion of net OPEB liability associated with the Administration	$ 2,438,911

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Administration's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2017, the Administration's proportion was 0.0822826 percent, which is a decrease of 0.0152166 percent from its proportion measured as of June 30, 2016.

Note 6. Other Postemployment Benefits (Continued)

For the year ended June 30, 2018, the Administration recognized OPEB expense of $235,468 and for support provided by the State under special funding situations revenue of $127,577. At June 30, 2018, the Administration reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 6,775
Net difference between projected and actual earnings on OPEB plan investments	-	32,294
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	297,718
The Administration's contributions subsequent to the measurement date of June 30, 2017	171,450	-
Total	$ 171,450	$ 336,787

The amount of $171,450 reported as deferred outflows of resources related to OPEB resulting from the Administration's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2019	$(90,058)
2020	(90,058)
2021	(90,058)
2022	(66,613)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation

Note 6. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010- June 30, 2015.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 3.0% for assets invested with the WVBTI. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTI.

The long-term rate of return on OPEB plan investments were determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) was developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of long-term geometric rates are summarized in the following table:

Note 6. Other Postemployment Benefits (Continued)

Asset Class	Long-Term Expected Real Rate of Return
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a $30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of $150 million for 2017 would increase by $10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

Note 6. Other Postemployment Benefits (Continued)

Sensitivity of the Administration's proportionate share of the net OPEB liability to changes in *the discount rate*

The following presents the Administration's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the Administration's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
The Administration's proportionate share of the net OPEB liability	$ 2,355,923	$ 2,023,319	$ 1,746,832

Sensitivity of the Administration's proportionate share of net OPEB liability to changes in the healthcare cost trend rates.

The following presents the Administration's proportionate share of the net OPEB liability, as well as what the Administration's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
The Administration's proportionate share of the net OPEB liability	$ 1,699,617	$ 2,023,319	$ 2,419,225

Note 7. Pension Plan

Plan description

The Administration contributes to the PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS covers substantially all employees of the State and its component units, as well as employees of participating non-state governmental entities who are not participants of another state or municipal system. Benefits under PERS include retirement, death and disability benefits, and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at www.wvretirement.com.

Note 7. Pension Plan (Continued)

Benefits provided

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between the ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the highest annual compensation during any period of three consecutive years within the last fifteen years of earnings. For all employees hired after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired after July 1, 2015, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

Contributions

Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions, consisting of member contributions of 4.5% of covered payroll for members hired prior to July 1, 2015, and employer contributions of 11.0%, 12.0%, and 13.5% of covered payroll for the years ended June 30, 2018, 2017, and 2016, respectively. All members hired after July 1, 2015, will contribute 6% of covered payroll.

During the years ended June 30, 2018, 2017, and 2016, the Administration's contributions to PERS required and made were $271,628, $309,777, and $355,400, respectively.

Pension, liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2018 and 2017, respectively, the Administration reported a liability of $808,537 and $1,648,721 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017. The Administration's proportion of the net pension liability was based on the Administration's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2017. At June 30, 2017, the Administration's proportion was .187315%, which was an increase of .0079341 from its proportion measured as of June 30, 2016.

Note 7. Pension Plan (Continued)

For the year ended June 30, 2018 and 2017, the Administration recognized pension expense of $130,427 and $244,865, respectively. At June 30, 2018 and 2017, the Administration reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 196,569
Difference between expected and actual experience	71,953	1,789
Difference in assumptions	-	41,938
Changes in proportion and differences between Administration contributions and proportionate share of contributions	42,986	43,872
The Administration's contributions made subsequent to the measurement date of June 30, 2017	271,628	-
Total	$ 386,567	$ 284,168

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 518,089	$ -
Difference between expected and actual experience	137,490	-
Difference in assumptions	-	80,323
Changes in proportion and differences between Administration contributions and proportionate share of contributions	14,575	98,226
The Administration's contributions made subsequent to the measurement date of June 30, 2016	309,777	-
Total	$ 979,931	$ 178,549

The amount of $271,628 was reported as deferred outflows of resources related to pensions resulting from Administration contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Note 7. Pension Plan (Continued)

Year ending June 30,	
2019	(82,773)
2020	73,789
2021	7,859
2022	(168,104)

Actuarial assumptions

The total pension liability in the June 30, 2017 and 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on 100% of RP-2000 Non-Annuitant, Scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, Scale AA fully generational for healthy males, 101% of RP-2000 Non-Annuitant, Scale AA fully generational for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 7. Pension Plan (Continued)

Actuarial assumptions (Continued)

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
US equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total	100.00%		6.76%
Inflation (CPI)			1.90%
			8.66%

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the Administration's proportionate share of the net pension liability to changes in the discount rate

The following presents the Administration's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Administration's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Administration's proportionate share of the net pension liability (asset)	$ 2,238,386	$ 808,537	$ (400,388)

Note 8. Risk Management

The Administration is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration participates in several risk management programs administered by the State of West Virginia and other providers. Each of these risk pools have issued separate audited financial reports on their operations. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

Public Employees' Insurance Agency (PEIA)

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

Board of Risk and Insurance Management (BRIM)

The Administration participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Administration pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first $1 million per property event and purchases excess insurance on losses above that level. BRIM has $1 million per occurrence coverage maximum on all third-party liability claims.

Workers compensation insurance

The Administration carries workers compensation insurance coverage through a commercial carrier. The carrier is paid a monthly premium to provide compensation for injuries sustained in the course of employment. In exchange for the payment of premiums, the Administration has transferred its risks for job-related injuries of employees.

Note 9. Contingencies

The Administration is involved in certain claims and legal actions arising from the ordinary course of conducting business. Although the outcome of these claims and legal actions are presently indeterminable; it is the opinion of the Administration’s management, after a review of legal activities, that no adjustments to the financial statements are warranted and that any resolution of outstanding claims or legal actions are not expected to have a material adverse effect on the accompanying financial statements.

Note 10. Effect of New Accounting Pronouncements

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018. The Administration has not determined the effect this statement will have on its financial statements.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018. The Administration has not determined the effect this statement will have on its financial statements.

The GASB has issued **Statement No. 87**, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of Statement No. 87 are effective for reporting periods beginning after December 15, 2019. The Administration has not determined the effect this statement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Retiree Health Benefit Trust

	Year Ended June 30 2018
The Administration's proportion (percentage) of the net OPEB liability	0.082283%
The Administration's proportionate share of the net OPEB liability	$ 2,023,319
West Virginia special funding proportionate share of the net OPEB liability associated with the Administration	$ 415,592
Total portion of the net OPEB liability associated with the Administration	$ 2,438,911
The Administration's covered employee payroll	$ 1,530,548
The Administration's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	132.20%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%

Note: All amounts presented are as of the measurement date,
which is one year prior to the fiscal year end date.

THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

SCHEDULE OF CONTRIBUTIONS TO THE RHBT

	Years Ended June 30	
	2018	2017
Required contribution	$ 171,450	$ 169,009
Contributions in relation to the required contribution	171,450	169,009
Contribution deficiency (excess)	$ -	$ -
The Administration's covered employee payroll	$ 1,503,555	$ 1,530,548
Contributions as a percentage of covered employee payroll	11.40%	11.04%

See Independent Auditor's Report and accompanying Notes to Required Supplementary Information.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees Retirement System Plan

	Year Ended June 30			
	2018	2017	2016	2015
Administration's proportion (percentage) of the net pension liability	0.187315%	0.179381%	0.189669%	0.185831%
Administration's proportionate share of the net pension liability	$ 808,537	$ 1,648,721	$ 1,059,119	$ 685,838
Administration's covered payroll	$ 2,581,475	$ 2,632,593	$ 2,583,821	$ 2,551,483
Administration's proportionate share of the net pension liability as a percentage of its covered payroll	31.32%	62.63%	40.99%	26.88%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	86.11%	91.29%	93.98%

Note: All amounts presented are as of the measurement date,
which is one year prior to the fiscal year end date.

THE WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

SCHEDULE OF CONTRIBUTIONS TO THE PERS

	Years Ended June 30					
	2018	2017	2016	2015	2014	2013
Statutorily required contribution	$ 271,628	$ 309,777	$ 355,400	$ 361,735	$ 369,965	$ 381,890
Contributions in relation to the statutorily required contribution	271,628	309,777	355,400	361,735	369,965	381,890
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Administration's covered payroll	$ 2,469,345	$ 2,581,475	$ 2,632,593	$ 2,583,821	$ 2,551,483	$ 2,727,786
Contributions as a percentage of covered payroll	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

See Independent Auditor's Report and accompanying Notes to Required Supplementary Information.

Note 1. Trend Information Presented

The accompanying schedules of the Administration's proportionate share of the net OPEB and pension liability and contributions to RHBT and the PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

Note 2. OPEB Changes in Assumptions

Below are changes in the assumptions between the 2016 and 2015 valuations:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

The 2016 and 2015 valuations include consideration of the $30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, the presentation of covered payroll was changed for the June 30, 2015, actuarial valuation. Participating employees hired before July 1, 2010, pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010, are required to fully fund premium contributions upon retirement. Consequently, beginning June 30, 2015, actuarial valuation covered payroll represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010, allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.

Note 3. Pension Plan Amendments

The PERS was amended to make changes which apply to new employees hired on or after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired on or after July 1, 2015, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between the ages of 57 and 62 with at least twenty years of contributory service, or between the ages 55 and 62 with at least thirty years of contributory service.

(Continued)

Note 3. Pension Plan Amendments (Continued)

- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.

- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired on or after July 1, 2015, are required to contribute 6% of annual earnings.

Note 4. Pension Related Assumptions

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, assumptions were changed for the actuarial valuations as follows:

	2015 - 2017	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016), 1.9% (2015)	2.2%
Mortality rates	Active RP 2000 Non-Annuitant Tables, Scale AA fully generational	
	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational	Healthy males - 1983 GAM
		Healthy females - 1971 GAM
	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational	Disabled males - 1971 GAM
		Disabled females - Revenue ruling 96-7
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational	
	Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA fully generational	
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

SUPPLEMENTARY INFORMATION

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING STATEMENTS OF NET POSITION
June 30, 2018

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355 / Gift #7357	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 11,893,411	$ 24,094	$ 2,745,346	$ 160,674	$ 14,823,525
Inventory	39,864	-	-	-	39,864
Accounts receivable	470,360	-	-	-	470,360
Total current assets	12,403,635	24,094	2,745,346	160,674	15,333,749
NONCURRENT ASSETS					
Capital assets, net	1,211,072	1,345	450,190	46,115	1,708,722
Total assets	13,614,707	25,439	3,195,536	206,789	17,042,471
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows from OPEB and pension amounts	549,088	-	8,929	-	558,017
LIABILITIES					
CURRENT LIABILITIES					
Accrued expenses	222,340	-	7,828	-	230,168
Accounts payable	3,140,924	340	-	-	3,141,264
Total current liabilities	3,363,264	340	7,828	-	3,371,432
NONCURRENT LIABILITIES					
Accrued annual leave	244,304	-	-	-	244,304
Net pension liability	787,919	-	20,618	-	808,537
Net OPEB liability	1,995,600	-	27,719	-	2,023,319
Total noncurrent liabilities	3,027,823	-	48,337	-	3,076,160
Total liabilities	6,391,087	340	56,165	-	6,447,592
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows from OPEB and pension amounts	609,684	-	11,271	-	620,955
NET POSITION					
Investment in capital assets	1,211,072	1,345	450,190	46,115	1,708,722
Unrestricted	5,951,952	23,754	2,686,839	160,674	8,823,219
Total net position	$ 7,163,024	$ 25,099	$ 3,137,029	$ 206,789	$ 10,531,941

See Independent Auditor's Report.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2018

	Administrative / Liquor Fund #7352	Enforcement Fund #7356	Wine Fund #7351	Grants #7355/ Gift #7357	Total
OPERATING REVENUES					
Sales	$ 97,398,692	$ -	$ -	$ -	$ 97,398,692
Licenses, permits and fees	3,542,472	-	438,100	-	3,980,572
Administrative hearing fines	-	46,650	-	-	46,650
Total revenues	100,941,164	46,650	438,100	-	101,425,914
OPERATING EXPENSES					
Cost of sales	73,689,545	-	-	-	73,689,545
General and administrative	4,797,275	42,895	91,320	24,236	4,955,726
Depreciation	42,974	23,136	69,368	7,218	142,696
	78,529,794	66,031	160,688	31,454	78,787,967
OPERATING INCOME (LOSS)	22,411,370	(19,381)	277,412	(31,454)	22,637,947
NONOPERATING REVENUE (EXPENSE)					
Grants	103,808	-	-	92,100	195,908
Statutory distributions	(21,091,099)	(28,826)	-	-	(21,119,925)
Other	125,829	-	1,748	-	127,577
	(20,861,462)	(28,826)	1,748	92,100	(20,796,440)
Change in net position	1,549,908	(48,207)	279,160	60,646	1,841,507
NET POSITION, beginning of year	5,325,117	73,306	2,888,723	146,143	8,433,289
Cumulative effect of adoption of accounting principle	287,999	-	(30,854)	-	257,145
NET POSITION, beginning of year, as restated	5,613,116	73,306	2,857,869	146,143	8,690,434
NET POSITION, end of year	$ 7,163,024	$ 25,099	$ 3,137,029	$ 206,789	$ 10,531,941

See Independent Auditor's Report.

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 7

GAAP REPORTING FORM - DEPOSITS DISCLOSURE

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2018**

Per GASB Statement 40 the Agency must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's deposit policy.

See Note 2 to the Financial Statements

							2	3A	3B	3C	Foreign Currency Risk		
	Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	Amount Uninsured and Uncollateralized	Collateralized with securities held by the pledging financial institution but not in the name of the depositor	Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Currency Type	Maturity	Fair Value
Balances as of	June 30, 2017												
Cash with Treasurer													
Per wvOASIS Opening Balance Re	14,678,370		14,678,370										
Cash with Municipal Bond Commission			-										
Cash on Hand			-										
Cash in Transit to wvOASIS	145,155		145,155										
Cash with Board of Trustees			-										
Cash in Outside Bank Accounts			-										
Cash in Escrow			-										
Certificates of Deposits (Non-Negotiable)			-										
Other: Reconciling Item			-										
Total	14,823,525	-	14,823,525	-	0	0	0	0	0	0			0

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

Telephone Number (304) 558-4083
Fax Number (304) 558-4084

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8A

GAAP REPORTING FORM - DEPOSIT AND INVESTMENT RECONCILIATION

Audited Agency **West Virginia Alcohol Beverage Control Administration - June 30, 2018**

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:	
Cash and cash equivalents as reported on balance sheet	$ 14,823,525
Less: cash equivalents disclosed as investments	
Add: restricted assets disclosed as deposits	
Other (describe)	
Carrying amount of deposits as disclosed on Form 7	$ 14,823,525
Investments:	
Investments as reported on balance sheet	$ -
Add: restricted assets disclosed as investments	
Add: cash equivalents disclosed as investments	
Other (describe)	
Reported amount of investments as disclosed on Form 8	$ -

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
Financial Accounting and Reporting Sec
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

Telephone Number (304) 558-4083
Fax Number (304) 558-4084

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 15

GAAP REPORTING FORM - TRANSFERS IN/OUT

Audited Agency **WV ABCA**

Indicate amounts transferred from/to your agency as of June 30, 2018

wvOASIS Doc. ID	Agency Transferring From	wvOASIS FUND	Agency Transferring To	wvOASIS FUND	Amount	
1	2	3	4	5	6	
FNDT1800000144	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800000014	Alcohol Beverage Control Administration	7352	General Fund	490	1,072,000	
FNDT1800000309	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800000162	Alcohol Beverage Control Administration	7352	General Fund	490	153,500	
FNDT1800000471	Alcohol Beverage Control Administration	7352	General Fund	490	1,800,000	*
FNDT1800000486	Alcohol Beverage Control Administration	7352	General Fund	490	45,800	
FNDT1800000673	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800000539	Alcohol Beverage Control Administration	7352	General Fund	490	13,750	
FNDT1800000791	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800000717	Alcohol Beverage Control Administration	7352	General Fund	490	16,800	
FNDT1800001018	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800000885	Alcohol Beverage Control Administration	7352	General Fund	490	28,000	
FNDT1800001157	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800001048	Alcohol Beverage Control Administration	7352	General Fund	490	18,750	
FNDT1800001360	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800001230	Alcohol Beverage Control Administration	7352	General Fund	490	3,250	
FNDT1800001558	Alcohol Beverage Control Administration	7352	General Fund	490	1,500,000	*
FNDT1800001403	Alcohol Beverage Control Administration	7352	General Fund	490	8,750	
FNDT1800001811	Alcohol Beverage Control Administration	7352	General Fund	490	2,000,000	*
FNDT1800001622	Alcohol Beverage Control Administration	7352	General Fund	490	10,500	
FNDT1800002032	Alcohol Beverage Control Administration	7352	General Fund	490	2,200,000	*
FNDT1800001913	Alcohol Beverage Control Administration	7352	General Fund	490	144,500	
FNDT1800002199	Alcohol Beverage Control Administration	7352	General Fund	490	1,000,000	*
FNDT1800002086	Alcohol Beverage Control Administration	7352	General Fund	490	575,500	
FNDT1800000206	Alcohol Beverage Control Administration	7356	General Fund	490	28,825	
			Total		$ 21,119,925	

*Do not include IGT's, Reimbursements or Expense to Expense transactions

Explain Transfers In/Out amounts greater that or equal to $1,000,000.

* Statutory transfers based on operations

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 Honorable Members of the West Virginia
Alcohol Beverage Control Administration
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 Alcohol Beverage Control Administration (the Administration), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Administration'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 Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of the Administration'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 a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 28, 2018