Audited Financial Statements

Hatfield-McCoy Regional Recreation Authority

Year Ended December 31, 2006 and Six Months Ended December 31, 2005

Gibbons & Kawash
Certified Public Accountants

Audited Financial Statements

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

Year Ended December 31, 2006 and Six Months Ended December 31, 2005

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hatfield-McCoy Regional Recreation Authority
Lyburn, West Virginia

We have audited the accompanying financial statements of Hatfield-McCoy Regional Recreation Authority (the Authority) as of and for the year ended December 31, 2006, and as of and for the six months ended December 31, 2005, 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 audits 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 Hatfield-McCoy Regional Recreation Authority as of December 31, 2006 and 2005, and the results of its operations and cash flows for the year ended December 31, 2006, and six months ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to supplement, although not required to be part of, the basic financial statements.

Gibbons & Kawash

June 19, 2007

707 VIRGINIA STREET, EAST | SUITE 300 | CHARLESTON, WV 25301 | PHONE: 304.345.8400 | FAX: 304.345.8451

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash	$ 263,740	$ 104,584
Grants receivable	85,620	378,403
Accounts receivable	55,877	-
Prepaid expenses	84,102	84,372
Prepaid grant matching	123,559	30,910
Inventory	33,615	29,565
Total current assets	646,513	627,834
Capital assets, net	688,563	591,895
Other	-	1,295
Total assets	$ 1,335,076	$ 1,221,024
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 34,165	$ 51,776
Accrued expenses	36,993	55,573
Current portion of capital lease obligations	2,180	1,795
Deferred revenue	101,459	-
Other	8,722	8,479
Total current liabilities	183,519	117,623
Long-term liabilities:		
Capital lease obligations, net of current portion	4,518	881
Net assets:		
Invested in capital assets, net of related debt	681,865	589,219
Unrestricted	465,174	513,301
Total net assets	1,147,039	1,102,520
Total liabilities and net assets	$ 1,335,076	$ 1,221,024

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

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2006 and Six Months Ended December 31, 2005

	2006	2005
Operating revenues:		
User permit sales	$ 755,411	$ 328,583
Marketing and promotional revenue	325,335	222,407
Other income	366	-
Total operating revenues	1,081,112	550,990
Operating expenses:		
Salaries and wages	576,527	290,377
Payroll taxes	88,137	38,349
Employee benefits	184,896	71,528
Travel and meeting	17,814	7,628
Office	90,179	37,386
Marketing and promotional	280,819	128,563
Trail permits	12,641	9,208
Rent and utilities	24,542	16,610
Legal and professional	66,494	61,179
Insurance	170,829	94,112
Depreciation	95,166	50,554
Trail development and maintenance	150,739	73,371
Building repairs and maintenance	1,943	261
Equipment and vehicle repairs and maintenance	97,951	35,291
Small tools and equipment	26,990	7,766
Other licenses and taxes	-	97
Total operating expenses	1,885,667	922,280
Operating loss	(804,555)	(371,290)
Nonoperating revenues (expenses):		
Grant revenues	845,689	490,238
Interest income	10,113	3,513
Loss on disposal of capital assets	(5,630)	(18,806)
Interest expense	(1,098)	(341)
Total nonoperating revenues	849,074	474,604
Net income	44,519	103,314
Net assets, beginning of year	1,102,520	999,206
Net assets, end of year	$ 1,147,039	$ 1,102,520

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

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006 and Six Months Ended December 31, 2005

	2006	2005
Cash flows from operating activities:		
Cash receipts from customers and other sources	$ 1,025,235	$ 550,990
Cash paid to employees	(778,114)	(381,296)
Cash paid to suppliers	(1,143,469)	(649,586)
Net cash used in operating activities	(896,348)	(479,892)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	16,135	26,900
Purchase of capital assets	(205,847)	(13,386)
State funds in aid of acquisitions and operations	1,239,931	205,726
Principal repayments on capital lease obligations	(3,730)	(11,966)
Interest paid	(1,098)	(341)
Net cash provided by capital and related financing activities	1,045,391	206,933
Cash flows from investing activities:		
Interest income	10,113	3,513
Net increase (decrease) in cash and cash equivalents	159,156	(269,446)
Cash, beginning of year	104,584	374,030
Cash, end of year	$ 263,740	$ 104,584
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	$ (804,555)	$ (371,290)
Adjustments to reconcile income from operations to net cash used by operating activities:		
Depreciation	95,166	50,554
(Increase) decrease in operating assets:		
Accounts receivable	(55,877)	-
Prepaid expenses	270	(61,394)
Inventory	(4,050)	(8,340)
Prepaid grant matching	(92,649)	-
Other assets	1,295	4,562
Increase (decrease) in operating liabilities:		
Accounts payable	(17,611)	(61,835)
Accrued expenses	(18,580)	(16,794)
Other current liabilities	243	(15,355)
Cash used in operating activities	$ (896,348)	$ (479,892)
Noncash transactions affecting financial position:		
Capital assets acquired through capital lease	$ 7,752	$ -

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

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enabling Legislation

The Hatfield-McCoy Regional Recreation Authority (the Authority) is a public corporation and government instrumentality of the State of West Virginia established under Chapter 20, Article 14 of the West Virginia Code.

The Authority was created to enable and facilitate the development and operation of a system of trail-oriented recreation facilities to be used for motorcycles or all-terrain vehicles, bicycle riding, horseback riding, and hiking. The Authority has developed, and currently maintains, trail systems located throughout southern West Virginia. The Authority receives support through federal and state grants, and from the sale of trail permits. Approximately 40% of the Authority's revenue and support is derived from federal and state grants.

Basis of Accounting

The Authority is accounted for as a special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has 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.

Inventories

Inventories which include retail and advertising merchandise are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported at historical cost and include interest on funds borrowed to finance construction. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. Contributed capital assets are valued at the approximate fair value at the date of contribution. Depreciation is computed using the straight-line method over a period of 5-39 years.

1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets consist of all capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Net assets are restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors, or grantors.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

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.

Compensated Absences and Post-Employment Benefits Other Than Pension Benefits

Employees fully vest in all earned but unused vacation and the Authority accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits, using the “termination payments” method. The cost of retiree health care benefits is recognized as an expense as incurred.

Reclassification

Certain 2005 amounts have been reclassified to conform with the 2006 presentation.

2 – CASH

At December 31, 2006 and 2005, the Authority had deposits in financial institutions reported as cash with carrying balances of $263,740 and $104,584, respectively, and bank balances of $264,577 and $161,682, respectively. As of December 31, 2006, $100,000 of the Authority’s bank balance was covered by federal depository insurance each year. The remaining balances were uninsured and uncollateralized.

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - GRANTS RECEIVABLE

Grants receivable from other governments at December 31, 2006 and 2005, consisted of:

	2006	2005
West Virginia Division of Highways	$ 11,313	$ 253,403
West Virginia Parkways Economic Development and Tourism Authority	62,500	125,000
West Virginia Division of Tourism	11,807	-
	$ 85,620	$ 378,403

4 - CAPITAL ASSETS

A summary of capital assets at December 31, 2006 and 2005, follows:

December 31, 2006	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Construction in process	-	$ 29,700	-	$ 29,700
Capital assets being depreciated:				
Buildings	$ 228,093	$ 11,275	$ -	$ 239,368
Equipment	320,784	34,750	(6,624)	348,910
Vehicles	392,049	125,211	(48,862)	468,398
Leasehold improvements	-	4,911	-	4,911
Total capital assets being depreciated	940,926	176,147	(55,486)	1,061,587
Less accumulated depreciation:				
Buildings	(31,408)	(6,010)	-	(37,418)
Equipment	(122,385)	(39,423)	6,624	(155,184)
Vehicles	(195,238)	(49,598)	34,849	(209,987)
Leasehold improvements	-	(135)	-	(135)
Total accumulated depreciation	(349,031)	(95,166)	41,473	(402,724)
Total capital assets being depreciated, net	$ 591,895	$ 80,981	$ (14,013)	$ 658,863
Total capital assets, net	$ 591,895	$ 110,681	$ (14,013)	$ 688,563

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CAPITAL ASSETS (Continued)

December 31, 2005	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings	$ 228,093	$ -	$ -	$ 228,093
Equipment	405,511	8,121	(92,848)	320,784
Vehicles	393,784	5,265	(7,000)	392,049
Total capital assets being depreciated	1,027,388	13,386	(99,848)	940,926
Less accumulated depreciation:				
Buildings	(28,702)	(2,706)	-	(31,408)
Equipment	(151,877)	(20,450)	49,942	(122,385)
Vehicles	(172,040)	(27,398)	4,200	(195,238)
Total accumulated depreciation	(352,619)	(50,554)	54,142	(349,031)
Total capital assets being depreciated, net	$ 674,769	$ (37,168)	$ (45,706)	$ 591,895
Total capital assets, net	$ 674,769	$ (37,168)	$ (45,706)	$ 591,895

5 – PENSION PLAN

All full-time Authority employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. The PERS also provides deferred retirement, early retirement, death, and disability benefits. The PERS issues an annual report, a copy of which can be obtained by contacting PERS.

Covered employees are required to contribute 4.5% of their salary to the PERS while the Authority is required to contribute 10.5% of covered employee's salaries to the PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. A summary of the Authority and employee contributions required and made for the year ended December 31, 2006, and six months ended December 31, 2005, are as follows:

	2006	2005
Authority contributions	$ 48,700	$ 24,804
Employee contributions	20,871	10,630
Total contributions	$ 69,571	$ 35,434

6 - GRANT REVENUES

Grant revenues recognized during the year and six months ended December 31, 2006 and 2005, consisted of the following:

	December 31, 2006	December 31, 2005
West Virginia Parkways Economic Development and Tourism Authority	$ 250,000	$ 125,000
West Virginia Division of Tourism	338,520	365,238
West Virginia Division of Highways	170,051	-
Local Governments	87,118	-
Total grant revenues	$ 845,689	$ 490,238

7 - LEASES

Operating Lease

The Authority leases an office building from a real estate company, in which the President is a board member, under an operating lease dated August 1, 2000. The Authority's lease is for an initial term of one year, with automatic renewal on a month-to-month basis. The monthly rental amount for the year ended December 31, 2006, was modified through a verbal agreement. Rent expense for the operating lease during the year and six months ended December 31, 2006 and 2005, was $6,000 each year.

Capital Leases

The Authority leases certain office equipment under leasing arrangements which have been determined to be capital leases. Capital assets at December 31, 2006 and 2005, includes the following amounts for leased equipment:

	2006	2005
Equipment	$ 12,922	$ 26,912
Less accumulated depreciation	4,314	15,403
	$ 8,608	$ 11,509

7 – LEASES (Continued)

Capital Leases (Continued)

Future minimum payments under capital leases are as follows:

December 31		
2007	$	2,516
2008		2,184
		2,184
		990
		7,874
Less portion representing interest		1,176
	$	6,698

8 - RELATED PARTY TRANSACTIONS

The Authority obtained liability insurance through an insurance agency owned by a board member. Insurance premiums paid to this agency were $59,166 and $98,648, for the year ended December 31, 2006, and six months ended December 31, 2005, respectively.

9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft, or damage to and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The Authority has purchased property and casualty insurance through the State of West Virginia's Board of Risk and Insurance Management (BRIM) and a commercial insurance carrier, and employee health insurance through a commercial insurance carrier. Additionally, the Authority has purchased insurance through Brickstreet Mutual Insurance Company (Brickstreet) to provide coverage for work related accidents and injuries.

BRIM is a public risk pool that provides for general, property, medical malpractice, and automobile liability. Brickstreet provides coverage for work related accidents and is considered an insurance enterprise fund.

In exchange for payment of premiums to BRIM, commercial insurance companies, and Brickstreet, the Authority has transferred its risks for property loss, employee health coverage and employee work related injuries.

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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*

The Board of Directors
Hatfield-McCoy Regional
Recreation Authority

We have audited the financial statements of the Hatfield-McCoy Regional Recreation Authority (the Authority) as of and for the year ended December 31, 2006, and six months ended December 31, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We noted deficiencies involving the internal control over financial reporting and its operation that we consider to be a significant deficiency. The significant deficiency is described in the accompanying schedule of findings and responses as item 2006-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the significant deficiency to be a material weakness.

Our consideration of the internal control over financial reporting would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated June 19, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management in a separate letter dated June 19, 2007.

This report is intended solely for the information and use of the board of directors, management, and 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.

Gibbons & Kawash

June 19, 2007

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2006, and Six Months Ended December 31, 2005

2006-1 Revenue Recognition

Criteria:

In accordance with U.S. generally accepted accounting principles, revenue is recognized when it is earned rather than when the cash is received.

Condition:

The Authority did not recognize certain grant and sponsorship revenues in accordance with U.S. generally accepted accounting principles. Certain grant and sponsorship revenue was recorded when the cash was received, rather than when the qualifying expenditure was attained and the sponsorship contract activity was performed.

Context:

The Authority had total revenues in the year ended December 31, 2006, and six months ended December 31, 2005, of $1,761,914 and $1,044,741, respectively.

Cause:

The Authority had some employee turnover in key accounting positions who were responsible for proper recording of revenue.

Effect:

The internally prepared financial statements were not in accordance with U.S. generally accepted accounting principles.

Recommendation:

We recommend that the Authority implement and enforce policies and procedures to ensure proper revenue recognition, which would include grant revenue being recognized when the qualifying expenditures have occurred and sponsorship revenue being recognized in the period the provisions of the contract are performed.

Management Response:

The Hatfield McCoy Regional Recreation Authority agrees with your findings with regards to revenue recognition by the Authority. The Authority has had turnover of key accounting staff over the past 19 months which attributed to activities that lead to your findings. This turnover created a situation where staff were placed into roles within the accounting functions of the Authority with limited experience or past accounting knowledge. The Authority addressed these deficiencies by segregating

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES
(Continued)

Year Ended December 31, 2006, and Six Months Ended December 31, 2005

2006-1 Revenue Recognition (Continued)

Management Response (Continued):

duties into three primary areas or tasks: accounts receivable, accounts payable, and through the utilization of a third-party accounting firm, Smith, Cochran, and Hicks, who provide our cash reconciliation, property capitalization, inventory reconciliation, and tax liability filings.

The segregation of duties has allowed the Authority to train its existing staff in their primary duties despite their limited knowledge and experience with overall financial management principles or formal accounting training, while leaving more complex financial entries to the private accounting firm.

To ensure future compliance with these findings, the Authority’s Office Manager will invoice for accounts receivable no less than weekly for all outstanding grant funds earned to date. Smith, Cochran, and Hicks will be given a monthly detailed list of all sponsorships, contributions, equipment, and other non-cash items to add to the Authority’s financial statements through monthly journal entries.

We feel that these steps, along with greater oversight by the Executive Director on accounting procedures, should ensure that instances such as those in your findings would be extremely unlikely to reoccur in future financial audits.