HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

Financial and Compliance Report

June 30, 2016

Arnett Carbis Toothman llp
CPAs & Advisors

CONTENTS

actcpas.com

Arnett Carbis Toothman llp
CPAs & Advisors

101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hatfield-McCoy Regional Recreation Authority (the Authority) as of and for the year ended June 30, 2016, and the related footnotes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 business-type activities of the Authority as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

In addition, accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, 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 for the year ended June 30, 2016. 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 Authority's internal control over financial reporting and compliance.

Arnett Carbis Toothman LLP

Charleston, West Virginia
January 31, 2018

Agency Overview

The Hatfield McCoy Regional Recreation Authority "Authority" is a public corporation created by the West Virginia Legislature with a mission to diversify the economy of Southern West Virginia. This mission is accomplished by creating a tourism economy based on out of state visitors utilizing private property to ride All-Terrain Vehicles, Utility Terrain Vehicles, Off Road Vehicles and Off Road Motorcycles on trails managed by the Authority.

The Authority assumes all liability, management of the trails, provides law enforcement and markets the trail system nationwide to potential riders. The Private Property Owner "Owner", primarily corporate land holding companies and mineral resource extraction companies, provide access to their property for no monetary consideration from the Authority. The Authority also keeps in force ten million dollars in insurance to remove all potential risk from the Owner from lawsuits which may be derived from riders whom utilize the trails.

The Authority has successfully fulfilled its mission over the past eighteen years by creating the largest and most successful All-Terrain Vehicle Trail System in the Eastern United States. Since the first trails opened in October 2000 the Hatfield McCoy Trails have become an engine for Entrepreneurship in Southern West Virginia, providing opportunities for numerous lodging providers to open in the communities connected to the trails.

The trails continue to grow and diversify the economy of some of West Virginia's most rural and economically depressed counties by expanding and connecting more cities, towns and counties to the trails. The Authority's largest challenge continues to be the velocity in which investments are made in the rural areas surrounding the trails. These investments, which are very numerous and scattered across the various counties, have failed to keep up with the trails continued expansion in ridership. The Authority grew its annual permit sales in 2016 by over 7 percent and has increased its permit sales every year since its inception. Annual permit sales in 2016 totaled 39,346 permits sold with 85% percent of these permits being sold to non-resident riders. The single largest challenge facing the Authority is continuing to grow its permit sales without additional lodging properties being developed in sufficient quantity to accommodate the growth.

The Authority has engaged West Virginia State University Extension Service to try to alleviate this problem by placing a full time Extension agent in the Authority's office to work with Entrepreneurs to help new and existing lodging providers expand their businesses. The Authority was also successful in August of 2016 in being one of 29 projects funded by the Appalachian Regional Commission (ARC) as part of its ARC POWER funding initiative. The ARC funding will allow the Authority to expand its marketing efforts, work with Southern West Virginia Community and Technical College to expand entrepreneurship training and complete a self-sustainability plan for the Authority. The funding will add over 1.3 million to the Authority's annual operations over the next four years. These funds will primarily be utilized to pay outside contractors to complete activities such as planning, marketing and entrepreneurship training. The funding will be effective from October 1, 2016 until September 30, 2020. The project will be matched by in-kind and cash resources by the Authority totaling $571,407.

The Authority also faces the challenges of growing into new areas while trying to develop a management plan to adequately oversee a nine county project area and thousands of acres of property with limited staff and resources. The Authorities activities include; selling permits, selling retail items, licensing vendors to produce apparel and novelty items, providing management and maintenance to trails on over a quarter million acres of private property, maintaining over 600 miles of active trails on sections of this property, providing law enforcement for riders and land owners and marketing the trail system as a premier riding destination to a nationwide audience of riders. These multiple roles with a full time staff of only 25 people has proven to be an enormous challenge. The Authority is truly unique in its public sector role and its focus on private sector development, especially considering that the Authority's primary resource, the property held by the Owners, is provided at no cost to the Authority. The Authority continues to look at unique ways to overcome these challenges and is considered the model in the United

States for motorized trail development. This has been proven by the replication or reproduction of all or portions of the Hatfield McCoy Trails in the states of Virginia, Kentucky and Pennsylvania. All of which visited and researched the Hatfield McCoy Trails prior to starting their efforts to develop All-Terrain Vehicle Trails and modeled their developments after the Authority's successes.

Financial Overview of July 1, 2015 to June 30, 2016 :

The Authority had a balanced year in 2016 with regards to overall finances. The Authority ended the fiscal year with a total operating revenue of 98% of budget projections and total operating expenses of 98% of budget projections, giving a budget variance of less than 1% between operating revenue and expenses. The period also included an additional $94,089 in non-operating revenue over the Authorities projected budget. The Authority's cash reserve position increased by $179,872 ending the year with a cash position of $1,534,221 in cash on hand for operations. The Authority has an annual cash cycle that has October as the peak month for cash on hand for the Authority and this month has historically been followed by five months of cash utilization for operations. The Authority will utilize approximately 15% of its budgeted expenses from cash from November 1 of each year until April 1 of the next year. This year the projected winter cash short fall is expected to be around $585,109, leaving the Authority with an approximate cash position on April 1, 2018 of around $800,000. Due to the Authority's necessity to utilize cash during five of its twelve months of operations, the preservation of cash reserves is essential to the Authority's overall operational health and continued operations. Insufficient reserves during the off season are the greatest threat to the Authority's financial health over time. As the Authority grows, so will its reserve balance requirements in order to sustain operations, currently the Authority would need to keep approximately $600,000 on hand just to meet winter season cash needs.

Revenue Analysis

Operating Revenues:

Operating Revenues came in $48,579 below budgeted estimates for the period. This was primarily due to Merchandise sales and sponsorship revenue coming in under projections.

Permit Sales Revenue:

Permit sales revenue is the Authority's primary nongovernmental revenue. The Authority issues permits to all riders on the trail system. These permits are $50 for non-resident riders and $26.50 for resident riders. The Authority has grown its User permit sales for the past eighteen years, increasing by approximately 7% in the 2016 fiscal year. The Authority expects this trend to continue into the future as new riding areas are opened and additional lodging is created by private Entrepreneurs to accommodate more visitors to the trail system. The Authority projects the current fiscal year permit sales to be up 12.5% due primarily to an increase of over $400,000 in marketing expenditures and new investments in lodging on the trails. These new lodging facilities, when coupled with over $400,000 in funding for new marketing activities through the ARC POWER grant, should have a significant positive impact on permit sales revenue. This is already showing up on the Authorities P&L with 2017 permit sales at 13.1 % over 2016. These numbers are reflective of the new marketing expenditures and capital investments in lodging.

Marketing Revenue:

Marketing revenues decreased slightly during the period as Merchandise sales continued to decline from previous periods as the Authority moves into a more license based model versus a direct sales to customers. The Authorities licensing program continued to grow as vendors purchased licensed apparel tags from the Authority to use on licensed goods.

Sponsorship Revenue:

The Authority did see a decrease in sponsorship revenue for the year. This revenue is derived from corporate sponsors whom pay the Authority to market their products as part of the Authority's business activities. The sponsorships change from year to year and consist primarily of non-cash items such as equipment, ATV's and merchandise. The Authority enters into contracts with each sponsor outlining the terms of the sponsorship and deliverables from each party. The Authorities primary corporate sponsors are related to the motorcycle and ATV industry; however this base continues to diversify as an insurance business and national chain lodging business have signed to sponsor the trails over the past year. The sponsorship program is one unique area where the Authority, as a governmental agency, has created a product that private sector companies have found value in sponsoring for product marketing purposes. The sponsorship program can provide a growth opportunity for the Authority, however this program will need more direct management hours in order to grow. The nature of the sponsorships is one in which relationships are developed over a period of years and currently the Authority does not have the man power to work on this type of outreach.

Non-operating revenues:

Non-operating revenues decreased significantly in 2016 as the Authority received substantially less money from the State Recreational Trails Program "RTP" than in the previous year. This was entirely due to the purchase of several new pieces of heavy equipment in the last fiscal year. The Authority sees its future governmental revenues as stable and would expect current funding levels to continue into the future without significant fluctuations.

Expense Analysis:

The Authority's operating expenses remained relatively flat during the 2016 fiscal year. There were some account fluctuations during the year that were notable and should be discussed. The first being increases in payroll cost, the Authority is committed to fully staffing its trails. During 2016 the Authority made an effort to fill all of its vacant positions. This process has continued to the current date although the Authority did outsource its law enforcement to the West Virginia Division of Natural Resources in June 2015 which changed its current staffing level to one Chief Trail Manager and one Equipment Operator on every system, these new positons needed to be filled. The second area of significant cost increase is depreciation, the Authority added over $1,000,000 in equipment prior to the beginning of this fiscal year that equipment is now showing up on the depreciation schedule. The growth of the Authority in future years will make expense management an ever increasing part of the Authority's Management Teams focus. The development of more accountable purchasing procedures should continue to contain cost while providing the necessary flexibility to employees to do their job without overly cumbersome purchasing processes.

Conclusions:

The Authority will face future challenges with the management of its revenue and expenses as it juggles the need to staff and maintain its trails with the amount of resources available. The Authority underwent a significant reorganization in 2015 with the legislature changing its enabling legislation. These changes focused on the Authorities structure and changed it from a state agency to a multi-county economic development authority. This change eliminated the Authority's law enforcement division and enabled it to contract with the West Virginia Division of Natural Resources for these services. The legislation, West Virginia State Code 20-14, also changed purchasing procedures for the Authority and its financial oversight. These changes all took effect June 1, 2015 and are currently in effect. These changes created new procedures, operational guidelines and oversight mechanisms that currently shape the way the Authority does business. Although riders would not notice these changes, other than the law enforcement personnel, the overall procedures the authority operates under have been changed dramatically. All changes were geared towards making the Authority a more accountable and more transparent governmental entity.

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,534,221
Grants receivable	12,400
Accounts receivable, net of allowance for bad debts of $3,891	232,689
Prepaid expenses	25,225
Prepaid grant matching	387,350
Inventory	59,361
Total current assets	2,251,246
Capital assets, net	2,507,736
Total assets	4,758,982
DEFERRED OUTFLOWS	
Deferred pension contributions	387,960
Total deferred outflows	387,960
LIABILITIES	
Current Liabilities	
Accounts payable	64,105
Accrued expenses	103,848
Total current liabilities	167,953
Long-Term Obligations	
Net pension liability	346,149
Other post-employment benefit obligation	475,374
Total liabilities	989,476
DEFERRED INFLOWS	
Earnings on pension plan investments	223,149
Total deferred inflows	223,149
NET POSITION	
Invested in capital assets	2,422,590
Unrestricted	1,511,727
Total net position	$ 3,934,317

See Notes to Financial Statements

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Years Ended June 30, 2016

Operating Revenues	
User permits sales	$ 1,559,594
Marketing and promotional revenue	498,232
Bad debt recovery	1,888
Total operating revenues	2,059,714
Operating Expenses	
Salaries and wages	1,111,265
Payroll taxes	179,239
Employee benefits	400,586
Travel and meeting	59,348
Office	6,054
Marketing and promotional	146,494
Trail permits	26,400
Rent and utilities	18,396
Legal and professional	188,575
Insurance	177,083
Depreciation	366,605
Trail development and maintenance	225,139
Building repairs and maintenance	11,645
Equipment and vehicle repairs and maintenance	107,625
Small tools and equipment	42,237
Contract labor	208,925
Total operating expenses	3,275,616
Operating (loss)	(1,215,902)
Nonoperating Revenues (Expenses)	
Intragovernmental revenues	859,194
Grant revenues	272,636
Interest income	1,408
Other expense	(6,815)
Net nonoperating revenues	1,126,423
Change in net position	(89,479)
Net position, beginning of year	4,023,796
Net position, end of year	$ 3,934,317

See Notes to Financial Statements

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016

Cash Flows From Operating Activities:	
Cash receipts from customers and other sources	$ 2,179,292
Cash paid to employees	(1,755,241)
Cash paid to suppliers	(1,294,529)
Net cash used in operating activities	(870,478)
Cash Flows From Noncapital Financing Activities:	
Payment of capital contribution to affiliates	(6,815)
Net cash used in noncapital financing activities	(6,815)
Cash Flows From Capital and Related Financing Activities:	
Proceeds from sale of capital assets	-
Purchase of capital assets	(76,073)
State funds in aid of acquisitions	1,131,830
Net cash provided by capital and related financing activities	1,055,757
Cash Flows From Investing Activities:	
Interest income	1,408
Net cash provided by investing activities	1,408
Net increase in cash and cash equivalents	179,872
Cash and cash equivalents, beginning of year	1,354,349
Cash and cash equivalents, end of year	$ 1,534,221
Reconciliation to reconcile operating loss to net cash used in operating activities:	
Operating loss	(1,215,902)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	366,605
Bad debt (recovery)	(1,888)
(Increase) decrease in operating assets:	
Accounts receivable	53,307
Prepaid expenses	22,426
Inventory	5,352
Prepaid grant matching	68,159
Increase (decrease) in operating liabilities:	
Accounts payable	(104,386)
Accrued expenses	(12,488)
Total pension liability	(233,001)
Post retirement	181,338
Net cash provided by operating activities	$ (870,478)

See Notes to Financial Statements

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity: 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 the sale of trail permits, intergovernmental revenues provided through state appropriations, and federal and state grants.

The accompanying financial statements present the Authority (primary government) only since the Authority does not have component units.

Basis of accounting: The Authority 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. As such, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The Authority's net position is classified as follows:

- **Invested in capital assets, net of related debt** – This represents the Authority's total investment in capital assets, net of accumulated depreciation and reduced by any balances of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The Authority had no debt related to its capital assets at June 30, 2016.

- **Restricted net position, expendable** – This includes resources in which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties, including creditors, grantors or contributors. The Authority does not have any restricted expendable resources at June 30, 2016.

- **Restricted net position, nonexpendable** – This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Authority does not have any restricted nonexpendable resources at June 30, 2016.

- **Unrestricted net position** – This represents resources derived from other than capital assets or restricted resources. These resources are used for transactions relating to the general operations of the Authority, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Cash and cash equivalents: Cash and cash equivalents include investments with original maturities of less than one month.

Inventory: Inventories which include retail and advertising merchandise are stated at the lower of cost or market using the last-in, first-out (LIFO) 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 $2,500 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.

Net position: Net position is the difference between assets and liabilities. Net investment in capital assets consist of all capital assets, less accumulated depreciation. All remaining net position is considered unrestricted.

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 estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from management's estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for uncollectible accounts. It is at least reasonably possible that the significant estimates used will change within the next year.

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 the State of West Virginia 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.

Net Pension Liability: For purposes of measuring the net pension liability and deferred outflows/inflows of the resources related to pensions, and pension expense, information about the fiduciary net position of Hatfield-McCoy Regional Recreational Authority. Public Employee Retirement System (PERS) (referred to as the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent events: In preparing these financial statements, the Authority has evaluated all events and transactions subsequent to June 30, 2016, for potential recognition or disclosure through January 31, 2018, the date these financial statements were issued.

Significant Recently Issued Pronouncements: Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, Issued February 2015, relates to fair value measurements, applicable primarily to investments made by state and local governments and defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the new guidance, more extensive note disclosures are required to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Authority adopted this guidance during the year ended June 30, 2017. Adoption of this Guidance did not have a material impact on the Authority's financial statements.

GASB Statement No.82, Pension Issues, issued March 2016, relates to improving consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB Statement No's 67, 68, and 73. The new guidance addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Authority adopted this guidance during the year ended June 30, 2017. Adoption of this Guidance did not have a material impact on the Authority's financial statements.

GASB Statement No.75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for GASB Postemployment Benefits Other Than Pensions and is effective for fiscal years beginning after June 15, 2017. Statement 75 requires governments to report a liability on the face of the financial statements for the Other Post-Employment Benefits (OPEB) that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Authority is currently evaluating the impact, if any, that adoption will have on its financial statements.

On December 7, 2016, the GASB issued Statement 83, Certain Asset Retirement Obligations, which establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. Under Statement 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The guidance also identifies the circumstances that trigger recognition of these transactions. The requirements of the pronouncement are effective for reporting periods beginning after June 15, 2018.

On June 28, 2017, the GASB issued Statement No. 87, Leases. This statement established a single approach to accounting for leases where all leases are recognized by lessees on their balance sheet through a lease asset and corresponding lease liability, including today's operating leases. The standard also requires that governmental entities report in their financial statements the amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, the interest expense on the lease liability, and informative disclosures about the lease. Additionally, GASB Statement 87, requires government lessors to recognize a lease receivable and a deferred inflow of resources and continue to report the leased asset in its financial statements; and report in its financial statements lease revenue recognized over the term of the lease corresponding with the reduction of the deferred inflow, interest income on the receivable; and informative note disclosures about the lease. The requirements of the pronouncement are effective for reporting periods beginning after December 15, 2019.

Note 2. Cash and Cash Equivalents

At June 30, 2016, the Authority had deposits in financial institutions reported as cash and cash equivalents with carrying balances of $1,534,221 and bank balances of $1,538,601. Of the bank balances, $250,000 was insured by federal depository insurance. The remaining balances were secured through letters of credit with FHLB Bank assigned to the Authority on behalf of United National Bank. The Authority does not have a policy requiring that the uninsured balance the Authority has on deposit with a financial institution be collateralized as management believes that the financial institution utilized by the Authority is credit worthy. The Authority also had cash on hand of approximately $4,254 as of June 30, 2016.

Interest rate risk is the risk that changes in interest rates demanded by the market will adversely affect the fair value of an investment. Generally, the longer the duration of time to maturity of an investment is, the greater the sensitivity of its fair value is to changes in market interest rates. The Authority manages its exposure to interest rate risk by maintaining cash equivalent assets in interest bearing bank demand depository accounts that are less affected by changes in market rates as compared to long-term investments.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the deposits denominated in foreign currency. The Authority has no cash deposits or investments that are subject to foreign currency risk.

Note 3. Grants Receivable

Grants receivable from other governments at June 30, 2016, consisted of:

	2016
West Virginia Division of Highways	$ 272,636
	$ 272,636

Note 4. Capital Assets

Capital asset additions, retirements and balances for the six months ended June 30, 2016, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Construction in process	$ -	$ 70,266	$ (65,016)	$ 5,250
Capital assets being depreciated:				
Infrastructure	$ 105,569	$ -	$ -	$ 105,569
Buildings	1,018,739	65,016	-	1,083,755
Equipment	1,538,209	-	(7,498)	1,530,711
Vehicles	1,111,890	11,400	-	1,123,290
Leasehold improvements	428,228	-	-	428,228
Total capital assets being depreciated	4,202,635	76,416	(7,498)	4,271,553
Less accumulated depreciation for:				
Infrastructure	(59,809)	(7,038)	-	(66,847)
Buildings	(171,257)	(26,122)	-	(197,379)
Equipment	(476,315)	(154,912)	-	(631,227)
Vehicles	(598,262)	(148,079)	-	(746,341)
Leasehold improvements	(98,724)	(28,549)	-	(127,273)
Total accumulated depreciation	(1,404,367)	(364,700)	-	(1,769,067)
Total capital assets being depreciated, net	2,798,268	(288,284)	(7,498)	2,502,486
Total capital assets, net	$ 2,798,268	$ (218,018)	$ (72,514)	$ 2,507,736

Note 5. Lease

In April 2011, the Authority entered into a twenty year operating lease for central office space. Under the lease, the Authority paid $36,000 upon the execution of the lease and will incur monthly rental expense with escalating rental payments starting at $600 in the initial year to $1,800 in the final year. Additionally, the Authority has made substantial leasehold improvements to the building approximating $400,000. The operating lease agreement, as amended in February 2014, includes a clawback provision in which the lessor may terminate the lease by providing the Authority one hundred eighty days' notice and paying a buyout fee. The buyout fee at the beginning of the lease was $360,000 with a $1,000 monthly decrease during the first five years of the lease term and $2,000 monthly decrease thereafter. As of June 30, 2016, the remaining buyout fee was $292,000. Amounts charged to rent expense for the lease were $8,400 for the twelve months ended June 30, 2016. Annual lease payments for each of the first five years of the lease will be $7,200 per year, with the total future lease payments for the remainder of the lease term amounting to $252,000.

Note 6. Pension Plan and Adoption of Accounting Standards Update

The Authority has adopted Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. This Statement requires the liability of employers for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability-that is, changes in the total pension liability and in the pension plan's fiduciary net position.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

Defined Benefit Pension Plan- West Virginia Employees Retirement System:

Plan Description, Contribution Information, and Funding Policies

The Authority contributes to the Public Employees Retirement System (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 State Legislature.

CPRB issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CPRB website at www.wvretirement.com. The following is a summary of eligibility factors, contribution methods and benefit provisions:

Public Employees Retirement System (PERS)

Eligibility to participate	All county full-time employees, except those covered by other pension plans.
Authority establishing contribution obligations and benefit provisions	State Statute
Plan Member's contribution rate Tier 1 Plan Member's contribution rate Tier II	4.50% 6.00%
The Authority's contribution rate	13.50%
Period required to vest	Five years
Benefits and eligibility for distribution	A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 15) times the years of service times 2% equals the annual retirement benefit.
Deferred retirement portion	No
Provisions for:	
Cost of living	No
Death benefits	Yes

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

At June 30, 2016, the Authority reported the following liability for its proportionate share of the net pension liabilities. The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2014, and rolled forward to June 30, 2015 using the actuarial assumptions and methods described in the appropriate section of this note. The Authority's proportion of the net pension liabilities was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2016, the Authority reported the following proportions and increase/(decrease) from its proportion measured as of June 30, 2015:

	PERS
Amount for proportionate share of net pension liability	$ 346,149
Percentage for proportionate share of net pension liability	0.061989%
Increase/(decrease) % from prior proportion measured	.009257%

For the year ended June 30, 2016, the Authority recognized $73,673 as pension expense.

The Authority reported deferred outflows of resources and deferred inflows and resources related to pension from the following sources as of June 30, 2016:

Public Employees Retirement System:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions		
Net difference between projected and actual earnings on pension plan investments	$ 105,609	$ 181,513
Differences between expected and actual experience	70,796	-
Changes of assumptions	-	41,636
Changes in proportion and differences between contributions and proportionate share of contributions	89,627	-
Contributions subsequent to the measurement date	121,928	-
	$ 387,960	$ 223,149

The amount reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30:	PERS
2017	$ 9,449
2018	9,449
2019	(2,417)
2020	26,402
Total	$ 42,884

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Public Employees Retirement System:	
Actuarial assumptions	
Inflation rate	1.90%
Salary increases	4.25%-6.0%
Investment Rate of Return	7.50%
Mortality Rates	Healthy males – 1983 GAM Healthy females – 1971 GAM Disabled males – 1971 GAM Disabled females – Revenue ruling 96 – 7

The actuarial assumptions used in the July 1, 2014 PERS valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2009.

The long-term expected rate of return on pension plan investments were determined using a building-block method in which estimates of expected real rates of returns (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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Rates summarized in the following table as of June 30, 2015 (measurement date) include the inflation component and were used for the following defined benefit plan:

	Long-Term Expected Real Rate of Return	(PERS) Target Asset Allocation
Investment		
US Equity (Russell 3000)	7.0%	27.5%
International Equity (ACWI ex US)	7.7%	27.5%
Fixed Income	2.7%	7.5%
High Yield	5.5%	7.5%
Real Estate	5.6%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%
Cash	1.5%	0.0%
Inflation (CPI)	1.9%	0.0%
		100.0%

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent as of June 30, 2015 (measurement date). The projection 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 fiduciary net position for each defined benefit pension plan 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 liabilities of each plan.

The following chart as of June 30, 2015 (measurement date) presents the sensitivity of the net pension liability to changes in the discount rate calculated using the discount rates as used in the actuarial evaluation, and what the net pension 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 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Authority's proportionate share of PERS's net pension liability	$ 798,310	$ 346,149	$ (35,859)

Pension plans' fiduciary net position - Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report available at the Consolidated Public Retirement Board's website at www.wvretirement.com. That information can also be obtained by writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue SE, Charleston, WV 25304.

PERS - Schedule of the Authority's Proportionate Share of the Net Pension Liability

	Year ended June 30, 2016	Six months ended June 30, 2015
Authority's proportion of the net pension liability (percentage)	0.061989%	0.052732%
Authority's proportionate share of the net pension liability	$ 346,149	$ 194,614
Authority's covered-employee payroll	$ 906,519	$ 417,779
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.18%	23.29%
Plan fiduciary net position as a percentage of the total pension Liability	91.29%	93.98%

PERS - Schedule of Authority Contributions Last 3 Periods

	Year ended June 30, 2016	Six months ended June 30, 2015	Year ended December 31, 2014
Contractually required contribution	$ 122,380	$ 58,489	$ 111,608
Contribution in relation to the contractually required contribution	(122,380)	(58,489)	(111,608)
Contribution deficiency (excess)	$ -	$ -	$ -
Authority's covered-employee payroll	$ 906,519	$ 417,779	$ 769,710
Contributions as a percentage of covered-employee payroll	13.50%	14.00%	14.50%

Details of the Authority's total payroll for employees covered by the Plan and employer and employee contributions to the Plan for the year ended June 30, 2016 are as follows:

Total payroll	$ 1,111,265
PERS payroll for covered employees	$ 906,519
PERS employer contribution	$ 122,380
PERS employees' contribution	$ 41,969

Note 7. Grant Revenues

Grants revenues recognized during the six months ended June 30, 2016, consisted of the following:

West Virginia Division of Highways	$ 272,636
Total grant revenues	$ 272,636

Note 8. Related Party Transactions

The Authority leases an industrial storage building from the Wyoming County Economic Development Board, for which an Authority board member serves on its Board of Directors, under an operating lease on a month-to-month basis. Rent expense for the operating lease was $12,375 for the twelve months ended June 30, 2016. No amounts are due and payable under this arrangement as of June 30, 2016.

Note 9. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 and coverage for work-related accidents and injuries through commercial insurance carriers.

BRIM is a public risk pool that provides for general, property, medical malpractice, and automobile liability. Amounts paid to BRIM for the twelve months ended June 30, 2016 were $57,479.

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

Note 10. Post Employment Benefits Other than Pension

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

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

The Authority's ARC was $27,398 and the Authority has made contributions to the OPEB Plan of $27,398, which represents 100% of the ARC, for the twelve months ending June 30, 2016, which resulted in net liabilities of $475,334, which are included in the Authority's Statement of Net Position as of June 30, 2016.

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

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

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

We have audited, 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, the financial statements of the business-type activities of the Hatfield-McCoy Regional Recreation Authority (the Authority), as of and for the year ended June 30, 2016, and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or 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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
January 31, 2018