HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

Financial and Compliance Report

June 30, 2018

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CPAs & Advisors

C O N T E N T S

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Notes 1 and 9 to the financial statements, Hatfield-McCoy Regional Recreation Authority adopted new accounting guidance required by Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, 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, 2018. 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
July 2, 2019

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF NET POSITION
June 30, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 1,152,330
Grants receivable	39,288
Accounts receivable, net of allowance for bad debts of $3,348	288,284
Prepaid expenses	128,380
Prepaid grant matching	282,476
Inventory	66,927
Total current assets	1,957,685
CAPITAL ASSETS, net of accumulated depreciation	2,425,822
Total assets	$ 4,383,507
DEFERRED OUTFLOWS	
Deferred outflows – pension	$ 163,699
Deferred outflows – OPEB	98,550
Total deferred outflows	262,249
Total assets and deferred outflows	$ 4,645,756
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 57,626
Accrued expenses	108,229
Total current liabilities	165,855
LONG-TERM OBLIGATIONS	
Net pension liability	286,356
Other post-employment benefit (OPEB)	423,586
Total liabilities	875,797
DEFERRED INFLOWS	
Deferred inflows – pension	85,105
Deferred inflows – OPEB	8,179
Total deferred inflows	93,284
NET POSITION	
Invested in capital assets	2,425,822
Unrestricted	1,250,853
Total net position	3,676,675
Total liabilities, deferred inflows, and net position	$ 4,645,756

See Notes to Financial Statements

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

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

OPERATING REVENUES	
User permits sales	$ 1,945,015
Marketing and promotional revenue	350,833
Bad debt expense	(2,640)
Total operating revenues	2,293,208
OPERATING EXPENSES	
Salaries and wages	1,178,268
Payroll taxes	141,712
Employee benefits	294,448
Travel and meeting	67,119
Office	126,321
Marketing and promotional	657,765
Trail permits	17,905
Rent and utilities	37,291
Legal and professional	249,889
Insurance	184,129
Depreciation	343,841
Trail development and maintenance	203,393
Building repairs and maintenance	8,800
Equipment and vehicle repairs and maintenance	113,516
Small tools and equipment	13,034
(Gain) on disposal of assets	(8,643)
Contract labor	257,814
Total operating expenses	3,886,602
Operating (loss)	(1,593,394)
NONOPERATING REVENUES (EXPENSES)	
Intragovernmental revenues	743,591
Grant revenues	681,287
Interest income	1,294
Other expense	(18,553)
Net nonoperating revenues	1,407,619
Change in net position	(185,775)
NET POSITION, beginning of year, before cumulative effect adjustment	3,688,070
CUMULATIVE EFFECT ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE	174,380
NET POSITION, beginning of year, after cumulative effect adjustment	3,862,450
NET POSITION, end of year	$ 3,676,675

See Notes to Financial Statements

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers and other sources	$ 2,361,444
Cash paid to employees	(1,595,272)
Cash paid to suppliers	(1,999,242)
Net cash (used in) operating activities	(1,233,070)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment of noncapital contribution to affiliates	(18,553)
Net cash provided by noncapital financing activities	(18,553)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(450,125)
Proceeds from sale of capital assets	11,775
State funds in aid of acquisitions	1,424,878
Net cash provided by capital and related financing activities	986,528
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	1,294
Net cash provided by investing activities	1,294
Net decrease in cash and cash equivalents	(263,801)
Cash and cash equivalents:	
Beginning of year	1,416,131
End of year	$ 1,152,330
RECONCILIATION TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (1,593,394)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	343,841
Bad debt expense	2,640
(Gain) on disposal of equipment	(8,643)
(Increase) decrease in operating assets:	
Accounts and grants receivable	(18,434)
Inventory, prepaid expenses and other assets	(117,705)
Prepaid grant matching	84,030
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	60,443
Net pension liability, deferred outflows and deferred inflows	(92,168)
Other post-employment benefits	106,320
Net cash provided by (used in) operating activities	$ (1,233,070)

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 instrumentally 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, 2018.

- **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, 2018.

- **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, 2018.

- **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 and pension liabilities. It is at least reasonably possible that the significant estimates used will change within the next year.

Compensated absences and other 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, 2018, for potential recognition or disclosure through July 2, 2019, the date these financial statements were issued.

Significant recently issued pronouncements: 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 adopted the provisions of the Statement in the current year (See Note 9. Post-Employment Benefits Other than Pension).

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, 2017. The Authority adopted this guidance during the year ended June 30, 2018. Adoption of this Guidance did not have a material impact on the Authority's 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. The Authority is currently evaluating the impact, if any, that adoption will have on its financial statements.

GASB No. 85, *Omnibus 2017*, issued March 2017, addresses practice issues identified during implementation and application of certain GASB Statements. The standard addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The new standard is effective for financial statements for periods beginning after June 15, 2017. The Authority adopted the provisions of the Statement in the current year. Adoption of this Guidance did not have a material impact on the Authority's financial statements.

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. The Authority is currently evaluating the impact, if any, that adoption will have on its financial statements.

Note 2. Cash and Cash Equivalents

At June 30, 2018, the Authority had deposits in financial institutions reported as cash and cash equivalents with carrying balances of $1,147,976 and bank balances of $1,271,574. 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 $4,354 as of June 30, 2018.

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.

Note 3. Grants Receivable

Grants receivable from other governments at June 30, 2018, consisted of:

West Virginia Division of Highways	$ 39,288

In October 2017, the Authority received preliminary approval for $1,570,000 of Abandoned Mine Lands ("AML") pilot grant to move a state route, construct new trails and reclaim adjacent AML sites. This project will assist a private investor in developing an ATV resort between the towns of Man and Gilbert in West Virginia. Also in January 2018, the Authority received preliminary approval for $2,850,000 of AML pilot grant to purchase the former Ivy Branch Trail System property as well as reclaim adjacent AML sites and construct the off road park. Through April 30, 2019, the Authority has spent approximately $68,000 of the AML grant funding.

Note 4. Capital Assets

Capital asset additions, retirements and balances for the year months ended June 30, 2018, are as follows:

	Beginning Balance	Additions / Transfers In	Retirements / Transfers Out	Ending Balance
CAPITAL ASSETS NOT BEING DEPRECIATED				
Construction in process	$ 127,376	$ 336,913	$ (464,289)	$ -
CAPITAL ASSETS BEING DEPRECIATED				
Infrastructure	105,569	-		105,569
Buildings	1,093,160	464,289	-	1,557,449
Equipment	1,534,607	22,279	-	1,556,886
Vehicles	1,171,352	48,740	(18,795)	1,201,297
Leasehold improvements	432,898	42,193	-	475,091
Total capital assets being depreciated	4,464,962	914,414	(483,084)	4,896,292
Less accumulated depreciation for:				
Infrastructure	(73,885)	(7,038)	-	(80,923)
Buildings	(226,322)	(31,971)	-	(258,293)
Equipment	(787,627)	(138,898)	-	(926,525)
Vehicles	(897,931)	(135,045)	15,658	(1,017,318)
Leasehold improvements	(156,522)	(30,889)	-	(187,411)
Total capital assets being depreciated	(2,142,287)	(343,841)	15,658	(2,470,470)
Total capital assets being depreciated, net	2,322,675	570,573	(467,426)	2,425,822
Total capital assets, net	$ 2,450,051	$ 907,486	$ (931,715)	$ 2,425,822

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 monthly rental payments starting at $600 in the initial year to $1,800 in the final year. Additionally, the Authority has made substantial leasehold improvements. 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 amendment was $360,000 with a $1,000 monthly decrease during the first five years of the lease term and a $2,000 monthly decrease thereafter. As of June 30, 2018, the remaining buyout fee was $244,000.

Annual lease payments for the remaining term of the lease are as follows:

Year ending June 30,		
2019	$	14,400
2020		14,400
2021		14,400
2022		14,400
2023		18,000
Thereafter		163,200
Total	$	238,800

Amounts charged to rent expense for the lease were $14,400 for the year ended June 30, 2018.

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	4.50% for members hired prior to July 1, 2015 and 6.00% for members hired after July 1, 2016
The Authority's contribution rate	11.00% for the year ended June 30, 2018
Period required to vest	Five years prior to July 1, 2015 and ten years subsequent to July 1, 2015
Benefits and eligibility for distribution	Prior to July 1, 2015: 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. Subsequent to July 1, 2015: A member who has attained age 62 and has earned 10 years or more of contributing service, or age 55 if 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, 2018, the Authority reported the following liability for its proportionate share of the net pension liabilities. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liabilities were determined by an actuarial valuation as of June 30, 2016, and rolled forward to the measurement date 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, 2018, the Authority reported the following proportions and increase/(decrease) from its proportion measured as of June 30, 2017:

	PERS
Amount for proportionate share of net pension liability	$ 286,356
Percentage for proportionate share of net pension liability	0.066341%
Increase/(decrease) % from prior proportion measured	0.000798%

For the year ended June 30, 2018, the Authority recognized $99,323 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, 2018:

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	$ -	$ (69,618)
Differences between expected and actual Experience	25,483	(634)
Changes of assumptions	-	(14,853)
Changes in proportion and differences between contributions and proportionate share of contributions	37,118	-
Contributions subsequent to the measurement date	101,098	-
	$ 163,699	$ (85,105)

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, 2018. 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
2019	$ 1,864
2020	34,248
2021	1,018
2022	(59,634)
Total	$ (22,504)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement.

Public Employees Retirement System:	
Actuarial assumptions:	
Inflation rate	3.00%
Salary increases	3.35%-6.00%
Investment Rate of Return	7.50%
Mortality Rates	Healthy males – 110% of RP – 2000 Non-Annuitant, Scale AA fully generational Healthy females – 101% of RP – 2000 Non-Annuitant, Scale AA fully generational Disabled males – 96% of RP – 2000 Disabled Annuitant, Scale AA fully generational Disabled females – 107% of RP – 2000 Disabled Annuitant, Scale AA fully generational

The actuarial assumptions used in the June 30, 2017 PERS valuation were based on the results of an actuarial experience study for the period 2009 – 2014.

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, 2017 (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	7.0%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%
Cash	2.7%	0.0%
		100.0%

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent as of June 30, 2017 (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, 2017 (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	$ 792,759	$ 286,356	$ 141,804

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, 2018
Authority's proportion of the net pension liability (percentage)	0.066341%
Authority's proportionate share of the net pension liability	$ 286,356
Authority's covered-employee payroll	$ 919,073
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	31.16%
Plan fiduciary net position as a percentage of the total pension liability	93.67%

PERS - Schedule of Authority Contributions Last Two Periods

	Year ended June 30, 2018
Contractually required contribution	$ 101,098
Contribution in relation to the contractually required contribution	(101,098)
Contribution deficiency (excess)	$ -
Authority's covered-employee payroll	$ 919,073
Contributions as a percentage of covered-employee payroll	11.00%

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, 2018 are as follows:

Total payroll	$ 1,178,268
PERS payroll for covered employees	$ 919,073
PERS employer contribution	$ 101,098

Note 7. Grant Revenues

Grants revenues recognized during the year ended June 30, 2018, consisted of the following:

West Virginia Division of Highways – Recreational Trails Program	$ 336,120
Appalachian Regional Commission	318,459
Other	26,708
Total grant revenues	$ 681,287

Note 8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 year ended June 30, 2018 were $65,236.

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 9. Post-Employment Benefits Other than Pension

The Authority participates in the West Virginia Other Post-Employment Benefit (OPEB) Plan of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a cost sharing multiple-employer defined benefit post-employment healthcare plan for eligible employees administered by the West Virginia Public Employee Insurance Agency (PEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers.

The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the Finance Board to establish and amend benefit plans to the PEIA Board of Trustees. The PEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB plan. That report may be obtained by writing to West Virginia Public Employees Insurance Agency, 601 57th Street, Charleston, WV 25304, or from the PEIA website at www.peia.wv.gov. The Authority's required contributions for OPEB for fiscal year 2018 were $39,294.

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

The projections of the net OPEB liability are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of the net OPEB liability does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation of any estimate of future post-employment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs option, changes in the investment rate of return and other matters increase the level of uncertainty of such estimates. As such, the estimate of post employment program costs contains considerable uncertainty and variability and actual experience may vary significantly by the current estimated net OPEB liability.

The net OPEB liability reported as of June 30, 2018 was measured as of June 30, 2016 and rolled forward to June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the OPEB plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share as well as the OPEB expense:

	OPEB
Amount for proportionate share of net OPEB – Current year	0.0172260%
Amount for proportionate share of net OPEB – Prior year	0.0141974%
Increase % from prior proportion measured	0.0030286%
Proportion of the net OPEB liability	$ 423,586
OPEB expense	$ 55,239

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows and resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Change of assumptions	$ -	$ -
Net difference between projected and actual earnings on plan investments	-	6,761
Differences between expected and actual experience	-	1,418
Changes in proportion and differences between contributions and proportionate share of contributions	59,256	-
Contributions subsequent to the measurement date	39,294	-
	$ 98,550	$ 8,179

The amount reported as deferred outflows of resources related to OPEB resulting from 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 OPEB will be recognized in expense as follows:

Years Ending June 30:	
2019	$ 13,883
2020	13,883
2021	13,883
2022	9,428
Total	$ 51,077

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 rate	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
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 TRS. RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for Troopers A and 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 2010 - 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 West Virginia Board of Treasury Investments (WVBTI). Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 27.5% U.S. equity, 27.5% International equity, 7.5% core fixed income, 7.5% high yield fixed income, 10% private equity, 10% hedge funds 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:

Investment	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%

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.

The following chart presents the sensitivity of the net OPEB liability to changes in the discount rate calculated using the discount rates as used in the actuarial evaluation, and what 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%
Net OPEB liability	$ 493,218	$ 423,586	$ 365,703

The following presents the net OPEB liability, as well as what 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:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 355,819	$ 423,586	$ 506,470

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.

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report available at the West Virginia Public Employee Insurance Agency's website at peia.wv.gov. That information can also be obtained by writing to the West Virginia Public Employee Insurance Agency, 601 57th Street, Suite 2, Charleston, West Virginia 25304.

	2018
Authority's proportion of the net OPEB liability (percentage)	0.0172260%
Authority's proportionate share of the net OPEB liability	$ 423,586
Authority's covered-employee payroll	$ 809,325
Authority's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	52.34%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%

	2018
Actuarially determined contribution	$ 44,424
Contribution in relation to the actuarially determined contribution	(44,424)
Contribution deficiency (excess)	-
Authority's covered-employee payroll	$ 809,325
Contributions as a percentage of covered-employee payroll	5.49%

Change in accounting principles

Effective July 1, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of the requirements of these statements is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The following restatement was performed to net position at the beginning of the year due to the adoption of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:

Net position, as previously stated	$ 3,688,070
Restatement for net OPEB liability	174,380
Net position, restated	$ 3,862,450

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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, 2018, and have issued our report thereon dated July 2, 2019.

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
July 2, 2019

Deficiencies in Internal Control:

No matters were reported.

Compliance Findings:

No matters were reported.