HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

Financial and Compliance Report

December 31, 2014

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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 December 31, 2014 and 2013, 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 December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal awards appearing on page 18 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the consolidated financial statements.

In addition, accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 November 2, 2016, 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 December 31, 2014. We issued a similar report for the year ended December 31, 2013, dated August 6, 2014. The purpose of those reports 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. Those reports are 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
November 2, 2016

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS

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, manages the trails, provides law enforcement and markets the trail system nationwide to potential riders. The Private Property Owner "the 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 maintains sufficient insurance coverage to remove potential risks 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 sixteen 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 revenue in 2014 by 2.4 percent and has increased its permit sales every year since its inception. Annual permit sales in 2014 totaled 36,288 permits sold with 82% 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 Authority anticipates the funding will add over $1.3 million in revenue 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 have 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 New York. Each has 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 2014 Operations:

The Authority had a balanced year in 2014 with regards to overall finances. The Authority ended the fiscal year with total revenue of 93.3% of budget projections and total expenses of 94% of budget projections, resulting in a budget variance of less than 1% between revenue and expenses. The Authority's cash reserve position decreased by $857,926, ending the year with a cash position of $728,518 in cash on hand for operations. At the end of 2013, the Authority obligated approximately $500,000 of their reserves to match $2,000,000 in grant funding for equipment and automobiles in its 2014 budget. These funds were utilized to replace the Authority's entire rolling stock fleet in 2014, excluding its 20,000 GVW or greater automobiles. The Authority also added six pieces of heavy equipment to the field operations division from these grant funds. The Authority estimates its cash position at the end of the current fiscal year to be back at around $1,000,000 with current reserves as of October 24, 2016 standing at $1,605,384. October is the peak for cash on hand for the Authority and 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 1st of each year until April 1st of the next year. The current year's projected winter cash short fall is expected to be around $480,000, leaving the Authority with an approximate cash position on April 1, 2017 of around $1.1 million, less expended portions of a project budgeted cash shortfall of approximately $140,000 for one-time expenses during the current fiscal year. 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.

Revenue Analysis

Operating Revenues:

Operating revenues decreased from the previous year from $1,976,362 in 2013 to $1,938,053 in 2014. This was primarily driven by decreases in marketing and promotional revenue by the Authority, decreasing from $475,270 to $361,243 in 2014. The Authority did see a slight increase in permit sales revenue, rising to $1,404,355 from $1,371,275 in the previous year. Sponsorships revenue also increased for the period moving up from $129,817 to $172,455. The breakdown of each of the Authority's primary revenue streams is described below.

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 sixteen years, increasing by approximately 2.4% in the 2014 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 flat primarily due to an unexpected drop in sales during the months of July and August 2016. Permit sales revenue dropped both of these months, which also coincided with the state's flood crisis. Although neither the Authority nor its trails were flooded, the permit sales revenue dropped from an increase of 7.2% from January 1, 2016 to June 30, 2016 to a decrease of 7.5% from July 1, 2016 to August 31, 2016. This was entirely due to riders being unaware the trails were not part of the flooded area and the national media's continued coverage of the floods and its devastation long after the initial flood event occurred at the end of June. The Authority believes that increases of 5% in 2018 and 2019 fiscal years will occur as new lodging currently under construction is brought online and through additional planned marketing efforts. These new lodging facilities, when coupled with over $800,000 in funding for new marketing activities through the ARC POWER grant, should have a significant positive impact on permit sales revenue.

Marketing Revenue:

Marketing revenues decreased from 2013 to 2014, dropping from $475,270 to $361,243, mainly due to decreases in event income and retail sales. These revenue sources will continue to drop in the current fiscal year as the Authority continues to streamline its retail sales program and finalizes its exit from all organized event management. The Authority has developed a comprehensive retail strategy which is currently fully implemented. This strategy, which entailed the Authority's exit from wholesale retail sales and the development of a royalty program to promote the creation of Hatfield-McCoy Trail merchandise to be wholesaled, is now fully implemented. The final wholesale previous year comparisons will be recognized through the Authority's financials by the end of 2016. The royalty program has grown tremendously over the past two years, with expected royalty income in fiscal year 2017 of over $30,000. These royalty payments have replaced over $200,000 in wholesale sales which were being done at a 15% or less margin. The Authority continues its direct retail program which is currently yielding margins of over 45% to the Authority. The Authority has noticed no decline in the availability of licensed merchandise in the project area due to its exit from merchandise wholesaling activities. The final event that the Authority was still managing, National Trailfest, was outsourced to the Town of Gilbert after the 2014 event; this marked the conclusion of the Authority's full exit from event management and will further reduce the Authority's marketing revenue in 2015 by approximately $80,000.

Sponsorship Revenue:

The Authority did see a slight increase 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 Authority's 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 the Authority currently does not have the man power to work on this type of outreach.

Non-operating revenues:

Non-operating revenues increased significantly in 2014 as the Authority received substantially more money from the State Recreational Trails Program "RTP" than in previous years, due to the purchase of several new pieces of heavy equipment and rolling stock. This increase was offset slightly as intergovernmental revenue continued to decline as the first six months of the 33% cut in state special revenue money was implemented in the second half of 2014. This trend continued into calendar year 2015 for the Authority since 33% of the Authority's special revenue was cut in the state 2015 fiscal year budget, running from July 1, 2014 to June 30, 2015 and diverted to the State Park Improvement Fund along with an approximate 7.5% cut in its general revenue funding. These cuts further reduced the Authority's direct state funding by another $150,000 in calendar year 2015 as a full calendar year of cuts took effect. The Authority applies for and receives various grants that impact its non-operating revenue numbers. However, these grants vary greatly from year-to-year and cannot be depended on for ongoing operational funding of the Authority. They do, however, provide a source of revenue to the Authority to be utilized for capital purchases and special projects which does defray cost for expanding the trail system and replacing equipment. The Authority projects all non-operating revenues to decrease in subsequent years due to public funding budgets which are a result of the states need to fund long term unfunded liabilities. These continued cuts will require offsets in spending coupled with increases in permit sales and other non-public sources of revenue by the Authority. This will require continued private sector investments into lodging infrastructure along the trails to allow for growth in user permit sales to offset decreased public funding.

Expense Analysis:

The Authority's operating expenses remained relatively flat during the 2014 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, as such it was necessary to have a full time ranger and equipment operator on every trail system. During 2014, 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. The second area of significant cost increases is the Authority's bad debt expense; this cost increased as the Authority continued its process of removing accounts receivable which, based on collection efforts and history, were not probable to be collected. The third area of significant cost increase was small tools and equipment; this happens as a byproduct of fully staffing the Authority, as employees need items such as chainsaws, weed eaters and other small equipment to work. As the workforce increases these items must be purchased and replaced more frequently. The growth of the Authority in future years will make expense management an ever increasing part of the Authority management team's 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 legislatures changing of 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
December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	**$ 728,518**	$ 1,586,444
Grants receivable	**204,083**	-
Accounts receivable, net of allowance for bad debts of $8,811 for 2014 and $6,169 for 2013	**74,886**	93,869
Other receivable	**-**	36,451
Prepaid expenses	**99,653**	137,100
Prepaid grant matching	**493,570**	275,428
Inventory	**59,288**	165,688
Total current assets	**1,659,998**	2,294,980
Capital assets, net	**2,864,329**	1,615,837
Total assets	**$ 4,524,327**	$ 3,910,817
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	**$ 96,496**	$ 65,097
Accrued expenses	**96,266**	78,337
Total current liabilities	**192,762**	143,434
Long-Term Liabilities		
Other post-employment benefit obligation	**463,047**	439,401
Total liabilities	**655,809**	582,835
Net Position		
Invested in capital assets	**2,864,329**	1,615,837
Unrestricted	**1,004,189**	1,712,145
Total net position	**3,868,518**	3,327,982
Total liabilities and net position	**$ 4,524,327**	$ 3,910,817

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
User permits sales	$ 1,404,355	$ 1,371,275
Marketing and promotional revenue	361,243	475,270
Sponsorship revenue	172,455	129,817
Total operating revenues	1,938,053	1,976,362
Operating Expenses		
Salaries and wages	1,016,617	909,595
Contract labor	185,999	241,062
Payroll taxes	115,681	93,042
Employee benefits	262,164	241,458
Travel and meeting	35,559	68,249
Office	99,233	112,576
Marketing and promotional	443,290	540,766
Trail permits	12,084	13,485
Rent and utilities	21,862	19,389
Legal and professional	341,888	289,471
Insurance	172,982	158,849
Depreciation	263,649	197,564
Trail development and maintenance	218,513	313,467
Building repairs and maintenance	13,126	26,963
Equipment and vehicle repairs and maintenance	100,804	160,354
Small tools and equipment	62,570	37,528
Bad debt expense	14,793	-
Miscellaneous expense	142	100
Total operating expenses	3,380,956	3,423,918
Operating (loss)	(1,442,903)	(1,447,556)
Nonoperating Revenues (Expenses)		
Intragovernmental revenues	1,026,314	1,278,358
Grant revenues	951,940	294,416
Interest income	12,057	9,636
Gain (loss) on disposal of capital assets	14,231	2,349
Other expense	(21,103)	(42,455)
Net nonoperating revenues (expenses)	1,983,439	1,542,304
Change in net position	540,536	94,748
Net position, beginning of year	3,327,982	3,233,234
Net position, end of year	$ 3,868,518	$ 3,327,982

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash receipts from customers and other sources	**$ 1,496,269**	$ 2,192,738
Cash paid to employees	**(1,352,887)**	(1,230,437)
Cash paid to suppliers	**(1,547,600)**	(2,073,433)
Net cash (used in) operating activities	**(1,404,218)**	(1,111,132)
Cash Flows From Capital and Related Financing Activities:		
Proceeds from sale of capital assets	**22,500**	7,152
Purchase of capital assets	**(1,445,416)**	(221,282)
State funds in aid of acquisitions	**1,957,151**	1,530,419
Net cash provided by capital and related financing activities	**534,235**	1,316,289
Cash Flows From Investing Activities:		
Interest income	**12,057**	9,636
Net increase (decrease) in cash and cash equivalents	**(857,926)**	214,793
Cash and cash equivalents, beginning of year	**1,586,444**	1,371,651
Cash and cash equivalents, end of year	**$ 728,518**	$ 1,586,444
Reconciliation to reconcile operating loss to net cash used in operating activities:		
Operating loss	**(1,442,903)**	(1,447,556)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	**263,649**	197,564
Bad debt expense	**14,793**	-
Donated capital assets	**(74,993)**	-
(Increase) decrease in operating assets:		
Accounts receivable	**(163,442)**	247,393
Prepaid expenses	**37,447**	(30,708)
Inventory	**106,399**	(6,123)
Prepaid grant matching	**(218,142)**	(31,017)
Increase (decrease) in operating liabilities:		
Accounts payable	**31,399**	(68,875)
Accrued expenses	**17,929**	13,658
Other post-employment benefit obligations	**23,646**	14,532
Net cash (used in) operating activities	**$ (1,404,218)**	$ (1,111,132)
Noncash investing, capital and financing activities:		
Capital assets in exchange for advertising	**$ -**	$ 42,455
Donated capital assets	**$ 74,993**	$ -

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 December 31, 2014 or at December 31, 2013.

- **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 December 31, 2014 or at December 31, 2013.

- **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 December 31, 2014 or 2013.

- **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 consists 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.

Subsequent events: In preparing these financial statements, the Authority has evaluated all events and transactions subsequent to December 31, 2014, for potential recognition or disclosure through November 2, 2016, the date these financial statements were issued.

Significant Recently Issued Pronouncements:

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. This statement is effective for reporting periods beginning after June 15, 2014, and the Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68 in November 2013. This statement amends Statement No. 68 related to transition provisions for certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and nonemployer contributing entities. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The provisions of this statement should be applied simultaneously with the provisions of Statement 68. This statement, as amended, is effective for reporting periods beginning after June 15, 2014, and the Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This statement completes the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The Statement is effective for reporting periods beginning after June 15, 2015. The Authority has not yet determined the financial statement impact of the pronouncement.

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces GASB Statement No. 43 and addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement is effective for reporting periods beginning after June 15, 2016. The Authority has not yet determined the financial statement impact of the pronouncement.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the 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 Statement is effective for reporting periods beginning after June 15, 2017. The Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 58. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by GASB. The Statement is effective for reporting periods beginning after June 15, 2015. The Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The Statement is effective for reporting periods beginning after December 15, 2015. The Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a costsharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The Statement is effective for reporting periods beginning after December 15, 2015. The Authority has not yet determined the financial impact of the pronouncement.

The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This new standard permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and provides guidance that will allow many pools to continue to qualify for amortized cost accounting. The existing standards provide that external investment pools may measure their investments at amortized cost for financial reporting purposes if they follow substantially all of the provisions of the Security Exchange Commission's Rule 2a-7. Likewise, participants in those pools are able to report their investments in the pool at amortized cost per share. Statement No. 79 replaces the reference in existing GASB literature to Rule 2a-7 with criteria that are similar to many respects to those in Rule 2a-7. This new standard is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Authority has not yet determined the financial statement impact of the pronouncement.

The GASB issued Statement No. 82, *Pension Issues*. This statement is designed to improve consistency in the application of pension standards by clarifying or amending related areas of existing guidance, specifically the practice issues raised by stakeholders during implementation related to GASB 67, 68 and 73. The Statement is effective for reporting periods beginning after June 15, 2016, except in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Authority has not yet determined the financial statement impact of the pronouncement.

Note 2. Cash and Cash Equivalents

At December 31, 2014 and 2013, the Authority had deposits in financial institutions reported as cash and cash equivalents with carrying balances of $724,768 and $575,627 and bank balances of $749,039 and $578,631, respectively. Of the bank balances, $250,000 was insured by federal depository insurance. The remaining balances were uninsured and uncollateralized. The Authority also had cash on hand of approximately $3,750 as of December 31, 2014 and 2013.

Additionally, the Authority had cash and cash equivalents invested with the West Virginia Board of Treasury Investments (BTI) in the prior year. At December 31, 2013, the Authority had investments of $1,007,067 shown as cash and cash equivalents invested in the BTI WV Short Term Bond Pool, which is not rated. These investments were sold during the current year and the resulting funds were deposited in a financial institution.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk exists within the WV Short Term Bond Pool, however, BTI limits the exposure to credit risk by maintaining investments of the Pool primarily in obligations of the U.S. Treasury and U.S. Government agency obligations and by requiring that all corporate bonds to be rated AA- by Standards & Poor's (or its equivalent) or higher, and that Commercial paper to be rated at least A-1+ by Standards & Poor's and P-1 by Moody's.

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. Additionally, the Authority relies on the management of BTI to manage the interest rate risk of the WV Short Term Bond Pool. The overall effective duration of the investments of the WV Short Term Bond Pool approximates 358 days and cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase.

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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 December 31, 2014 and 2013, consisted of:

	2014	2013
West Virginia Division of Highways	**$ 204,083**	$ -
	$ 204,083	$ -

Note 4. Capital Assets

Capital asset additions, retirements and balances for the years ended December 31, 2014 and 2013, are as follows:

December 31, 2014	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Capital assets being depreciated:				
Infrastructure	**$ 105,569**	**$ -**	**$ -**	**$ 105,569**
Buildings	**750,739**	**268,000**	**-**	**1,018,739**
Equipment	**692,793**	**731,176**	**-**	**1,423,969**
Vehicles	**951,362**	**492,978**	**(256,017)**	**1,188,323**
Leasehold improvements	**399,973**	**28,255**	**-**	**428,228**
Total capital assets being depreciated	**2,900,436**	**1,520,409**	**(256,017)**	**4,164,828**
Less accumulated depreciation for:				
Infrastructure	**(49,246)**	**(7,044)**	**-**	**(56,290)**
Buildings	**(149,239)**	**(23,235)**	**-**	**(172,474)**
Equipment	**(311,557)**	**(87,227)**	**-**	**(398,784)**
Vehicles	**(717,821)**	**(118,478)**	**247,749**	**(588,550)**
Leasehold improvements	**(56,736)**	**(27,665)**	**-**	**(84,401)**
Total accumulated depreciation	**(1,284,599)**	**(263,649)**	**247,749**	**(1,300,499)**
Total capital assets being depreciated, net	**1,615,837**	**1,256,760**	**(8,268)**	**2,864,329**
Total capital assets, net	**$ 1,615,837**	**$ 1,256,760**	**$ (8,268)**	**$ 2,864,329**

December 31, 2013	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets being depreciated:				
Infrastructure	$ 105,569	$ -	$ -	$ 105,569
Buildings	750,739	-	-	750,739
Equipment	539,516	153,277	-	692,793
Vehicles	932,816	38,546	(20,000)	951,362
Leasehold improvements	370,514	29,459	-	399,973
Total capital assets being depreciated	2,699,154	221,282	(20,000)	2,900,436

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2013	Beginning Balance	Additions	Reductions	Ending Balance
Less accumulated depreciation for:				
Infrastructure	(42,202)	(7,044)	-	(49,246)
Buildings	(130,015)	(19,224)	-	(149,239)
Equipment	(254,507)	(57,050)	-	(311,557)
Vehicles	(644,633)	(88,385)	15,197	(717,821)
Leasehold improvements	(30,875)	(25,861)	-	(56,736)
Total accumulated depreciation	(1,102,232)	(197,564)	15,197	(1,284,599)
Total capital assets being depreciated, net	1,596,922	23,718	(4,803)	1,615,837
Total capital assets, net	$ 1,596,922	$ 23,718	$ (4,803)	$ 1,615,837

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 December 31, 2014, the remaining buyout fee was $316,000. Amounts charged to rent expense for the lease were $7,200 for both the years ended December 31, 2014 and 2013. 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 $262,800.

Note 6. Pension Plan

All full-time Authority employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. The PERS also provides deferred retirement, early retirement, death and disability benefits. The PERS issues an annual report, a copy of which can be obtained by contacting PERS at the Consolidated Public Retirement Board, 4101 MacCorkle Avenue, S.E., Charleston, West Virginia 25304-1636 or by calling 1-800-654-4406.

Effective July 1, 2014, the employer contribution percentage decreased from 14.5% to 14.0%. Covered employees are required to contribute 4.5% of their salary to the PERS while the Authority is required to contribute 14.0% of covered employee's salaries to the PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. A summary of the Authority and employee contributions required and made for the following years ended December 31, are as follows:

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

	2014	2013	2012
Total payroll	**$ 1,016,617**	$ 909,595	$ 766,883
PERS payroll for covered employees	**$ 783,178**	$ 518,469	$ 421,364
Authority contributions	**111,609**	$ 96,376	77,774
Employee contributions	**35,243**	$ 30,423	24,561
	$ 146,852	$ 126,799	$ 102,335

Note 7. Grant Revenues

Grants revenues recognized during the years ended December 31, 2014 and 2013, consisted of the following:

	2014	2013
West Virginia Division of Highways	**$ 951,940**	$ 253,690
Federal Emergency Management Agency	**-**	36,451
West Virginia Division of Culture & History	**-**	4,275
Total grant revenues	**$ 951,940**	$ 294,416

Note 8. Related Party Transactions

The Authority leases an industrial storage building from the Wyoming County Economic Development Board, for which one Authority board member is an employee and one Authority member and the Authority's Executive Director serve on its Board, under an operating lease on a month-to-month basis. Rent expense for the operating lease was $13,500 and $14,500 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

The Authority obtained liability insurance through an insurance agency owned by a board member. Insurance premiums paid to this agency were $136,245 and $135,437 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

The Authority obtained contracted part time labor through a non-profit organization for which the Authority's Executive Director and an Authority Board member serve as board members. Total expenses paid to the organization were $201,660 and $245,192 for the years ended December 31, 2014 and 2013, respectively. In addition, the Authority had accrued expenses of $0 and $15,661 as of December 31, 2014 and 2013, respectively.

The Authority obtained building maintenance services through a non-profit organization for which the Authority's Executive Director is a board member. Total expenses paid to the organization were $0 and $19,449 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

The Authority obtained printing services through a company owned by the Deputy Executive Director's father. Total expenses paid to the company were $210 and $6,740 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

The Authority obtained catering services through a company owned by the Executive Director's mother for Board meetings and staff meetings. Total expenses paid to the company were $0 and $2,488 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

The Authority obtained vehicle maintenance services through two companies owned by a board member. Total expenses paid to the companies were $2,540 and $16,511 for the years ended December 31, 2014 and 2013, respectively. No amounts are due and payable under this arrangement as of December 31, 2014 and 2013.

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 years ended December 31, 2014 and 2013 were $38,847 and $26,530, respectively.

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 $23,646, $14,532, and $67,699 and the Authority has made contributions to the OPEB Plan of $23,646, $14,532, and $67,699, which represents 100%, 100%, and 100% of the ARC, respectively, for the years ending December 31, 2014, 2013 and 2012, respectively, which resulted in net liabilities of $463,047, and $439,401, which are included in the Authority's Statement of Net Position as of December 31, 2014 and 2013, respectively.

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Federal Highway Administration:			
Passed through West Virginia			
Department of Transportation			
Division of Highways:			
Recreational Trails Program	20.219	-	$ 951,940
Total Expenditures of Federal Awards			$ 951,940

HATFIELD-MCCOY REGIONAL RECREATION AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

Note 1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Hatfield-McCoy Recreational Authority and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.

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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 December 31, 2014, and have issued our report thereon dated November 2, 2016.

<u>Internal Control Over Financial Reporting</u>

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.

<u>Compliance and Other Matters</u>

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*.

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
November 2, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Hatfield-McCoy Recreational Authority
Lyburn, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Hatfield-McCoy Recreational Authority's compliance with the types of requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of Hatfield-McCoy Recreational Authority's major federal programs for the year ended December 31, 2014. Hatfield-McCoy Recreational Authority's major federal program is identified in the summary of results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hatfield-McCoy Recreational Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hatfield-McCoy Recreational Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hatfield-McCoy Recreational Authority's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Hatfield-McCoy Recreational Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Hatfield-McCoy Recreational Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hatfield-McCoy Recreational Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Hatfield-McCoy Recreational Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliant requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Charleston, West Virginia
November 2, 2016

HATFIELD-MCCOY RECREATIONAL AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____yes __X__no
• Significant deficiency(ies) identified?	_____yes __X__none reported
Noncompliance material to financial statements noted?	_____yes __X__no

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	_____yes __X__no
• Significant deficiency(ies) identified?	_____yes __X__none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____yes __X__no

Identification of major programs:

CFDA Number	Name of Federal Program	Amount Expended
	U.S. Department of Transportation Federal Highway Administration Passed through West Virginia Department of Transportation:	
20.219	Recreational Trails Program	$ 951,940
		$ 951,940

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	_____yes __X__no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

SECTION II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

HATFIELD-MCCOY RECREATIONAL AUTHORITY

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2014

No matters were reported.