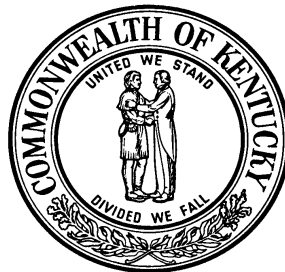


**REPORT OF THE AUDIT OF THE  
KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND**

**For The Year Ended  
June 30, 2019**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

Charles G. Snavelly, Secretary  
Energy and Environment Cabinet  
Zeb Weese, Chairman  
Kentucky Heritage Land Conservation Fund Board

Independent Auditor's Report

***Report on the Financial Statements***

We have audited the accompanying modified cash basis financial statements of the Kentucky Heritage Land Conservation (KHLC) Nature License Plate Fund, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the KHLC Nature License Plate Fund's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

KHLC Nature License Plate Fund management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



Charles G. Snavely, Secretary  
Energy and Environment Cabinet  
Zeb Weese, Chairman  
Kentucky Heritage Land Conservation Fund Board

We believe 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 respective modified cash basis financial position of the KHLC Nature License Plate Fund, as of June 30, 2019, and the respective changes in financial position - modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note 2.

***Basis of Accounting***

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2019 on our consideration of the KHLC Nature License Plate Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KHLC nature License Plate Fund's internal control over financial reporting and compliance.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 30, 2019

## **FINANCIAL STATEMENTS**





**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
BALANCE SHEET - MODIFIED-CASH BASIS**

**June 30, 2019**

**Assets**

Cash and Cash Equivalents	\$ 368,203
Total Assets	<u>\$ 368,203</u>

**Fund Balance**

Restricted	\$ 368,203
Total Fund Balance	<u>\$ 368,203</u>

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

**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
STATEMENT OF RECEIPTS, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - MODIFIED-CASH BASIS**

**For the Year Ended June 30, 2019**

**Receipts**

Nature License Plate Sales	\$ 361,050
Interest Income	<u>7,153</u>
Total Receipts	<u>368,203</u>

**Expenditures**

Total Expenditures	<u>                    </u>
Net Change in Fund Balance	368,203
Fund Balance at July 1, 2018	<u>                    </u>
Fund Balance at June 30, 2019	<u>\$ 368,203</u>

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

## **NOTES TO THE FINANCIAL STATEMENTS**



**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 1 - Background**

The Kentucky Heritage Land Conservation (KHLC) Nature License Plate Fund was established on September 10, 2018 per KRS 186.164(14). Historically, revenues derived from nature license plates were deposited and expended within the Kentucky Heritage Land Conservation Fund (KHLCF). However, in fiscal year 2019 it was brought to the Cabinet's attention that pursuant to KRS 186.164(14) all license plate funds received by a specific organization must be deposited into an account separate from all other accounts that organization may have. Knowing this statute, the Energy and Environment Cabinet worked with the Kentucky Transportation Cabinet to establish a new fund and start depositing revenue into the newly established account. The KHLC Nature License Plate Fund, as well as the KHLCF, are both administered within the Energy and Environment Cabinet and provide funds for the purchase and preservation of selected natural areas in the Commonwealth, protect rare and endangered species and migratory birds, save threatened areas of natural importance, and provide natural areas for public use, outdoor recreation, and education. The Kentucky Heritage Land Conservation Fund Board has the authority under KRS 146.560 to administer and oversee both the KHLC Nature License Plate Fund and the KHLCF. The Board is comprised of nine members: the Commissioner of the Department of Parks, the Executive Director of the Office of Kentucky Nature Preserves, the Commissioner of the Kentucky Department for Natural Resources, the Commissioner of the Department of Fish and Wildlife Resources and five members appointed by the governor as nominated by various interest groups throughout the state.

**Note 2 - Summary of Significant Accounting Policies**

Basis of Presentation

The financial statements have been prepared on a cash basis of accounting modified by the application of KRS 45.229, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This statute provides that for a period of 30 days after the close of any fiscal year, warrants may be drawn against available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during the year or in fulfillment of contracts properly made during the year but for no other purpose.

Concentration of Revenues

KHLC Nature License Plate Fund receipts are derived from the sale of special license plates, as authorized by KRS 186.164, which are available for purchase at each of the Kentucky County Clerk's offices. The sale proceeds are submitted to the Kentucky Transportation Cabinet (KYTC) and a portion of the sales is transferred to the KHLC Nature License Plate Fund.

**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

Commitments

The KHLC Nature License Plate Fund is utilized for outstanding commitments related to land acquisition and management. These commitments consist of outstanding projects, as approved by the KHLCF Board, with open memoranda of agreement in which the KHLC Nature License Plate Fund obligation has not yet been completed.

Functional Expenses

The KHLC Nature License Plate Fund provides grant funding to state agencies, state and local governments, and state colleges and universities, for the acquisition and management of lands of natural significance as established in KRS 146.560.

Fund Balance

Fund balance represents the difference between assets and liabilities reported on the KHLC Nature License Plate Fund's balance sheet. The fund balance does not lapse, and therefore is available for use in future periods. The beginning fund balance reported for fiscal year 2019 is zero due to the fact that the fund was established within the fiscal year and therefore no prior year revenues existed. Fund balance is classified as restricted. GASB 54 identifies fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, laws and or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation. As established in KRS 146.570, The KHLC Nature License Plate Fund revenue is restricted for use exclusively for the purposes of the acquisition and management of lands as defined in KRS 146.560.

**Note 3 - Cash and Cash Equivalents**

Participation in the Commonwealth's Internal Cash and Investment Pool

Receipts are deposited in the Commonwealth's general depository administered by the State Treasurer, who has statutory responsibility and authority to safeguard the monies. The KHLC Nature License Plate Fund participates in the internal cash and investment pool of the Commonwealth of Kentucky. Therefore, it follows the policies established by the Commonwealth for all pooled cash and investments. The Commonwealth's internal investment pool offers same day liquidity with no limitations, fees or restrictions on withdrawals. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. Accordingly, the Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for disclosures required by the Governmental Accounting Standards Board. For the year ended June 30, 2019, the KHLC Nature License Plate Fund's position in the pool totaled \$368,203.

**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019  
(Continued)**

**Note 4 - Cash Transfer**

During fiscal year 2019, there was a cash transfer completed totaling \$95,670 which moved license plate fees collected by KYTC that had previously been deposited into the Kentucky Heritage Land Conservation Fund. The transfer equated to the amount of revenue that had been received within fiscal year 2019 from KYTC prior to the establishment of the KHLC Nature License Plate Fund, which is specifically designated for revenues per KRS 186.164(14). This transfer is included in the Nature License Plate Sales line of the Statement of Receipts, Expenditures, and Changes in Fund Balance - Modified-Cash Basis.





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





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

Report On Internal Control Over Financial Reporting, And On Compliance  
And Other Matters Based On An Audit Of Financial Statements Performed In  
Accordance With *Government Auditing Standards*

Independent Auditor's Report

Charles G. Snavely, Secretary  
Energy and Environment Cabinet  
Zeb Weese, Chairman  
Kentucky Heritage Land Conservation Fund Board

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 Kentucky Heritage Land Conservation (KHLC) Nature License Plate Fund as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise KHLC Nature License Plate Fund's basic financial statements, and have issued our report thereon dated August 30, 2019.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control that we consider to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With *Government Auditing Standards*  
(Continued)

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. We consider the following deficiency described in the accompanying Schedule of Findings and Recommendations to be a material weakness: 2019-KHLCF-01.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the KHLC Nature License Plate Fund'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*.

***KHLC Nature License Plate Fund's Response to Findings***

KHLC Nature License Plate Fund's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. KHLC Nature License Plate Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KHLC Nature License Plate Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KHLC Nature License Plate Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 30, 2019

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY HERITAGE LAND CONSERVATION  
NATURE LICENSE PLATE FUND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2019**

**2019-KHLCF-01: The Opening Balance Of The Kentucky Heritage Land Conservation Nature License Plate Fund Did Not Include Accumulated License Plate Receipts From Prior Years**

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Finding 2018-KHLCF-01, included in the 2018 audit of the Kentucky Heritage Land Conservation Fund (KHLCF), noted that expenditures could not be traced to their respective revenue streams and therefore a prior year transfer to the general fund resulted in noncompliance with KRS 145.570. As a result, management created a new fund within the Commonwealth's accounting system, eMARS, to segregate license plate receipts from other receipts deposited in KHLCF.

Starting in fiscal year 2019, receipts derived from license plate sales were deposited in this new Kentucky Heritage Land Conservation (KHLC) Nature License Plate Fund. This fund, in fiscal year 2019 and in the future, will be used to deposit license plate receipts as well as pay the KHLC Nature License Plate Fund's portion of expenditures compliant with Commonwealth statutes and regulations. According to management, this approach will allow for an accurate matching of license plate receipts to expenditures. However, because the KHLC Nature License Plate Fund does not include all accumulated license plate receipts from prior years, the beginning balance of the fund is not complete.

Transferring all accumulated plate receipts from the KHLCF to the KHLC Nature License Plate Fund is not possible, as indicated in the prior year finding, because expenditures cannot be tied to the source of the receipts.

Future general fund transfers from the KHLCF, or other noncompliant expenditures, may include license plate receipts. Also, the beginning balance of the KHLC Nature License Plate Fund, in this case zero, is not representative of accumulated license plate receipts.

Accounting standards require financial statements to be complete and accurate to ensure information reported can be relied on and utilized by internal and external parties. Sound internal controls further dictate adequate policies and procedures to be in place to ensure accuracy in the financial reporting process.

**Recommendation**

Management should ensure their planned approach, and the internal controls established, for expenditures within the KHLC Nature License Plate Fund allows for compliance with Commonwealth statutes and regulations. To avoid future issues related to the beginning balance of the KHLC Nature License Plate Fund, activities within this fund should be reserved exclusively for license plate receipts and compliant expenditures.

**Management's Response and Planned Corrective Action**

*The finding of control weakness concerning the beginning balance of the Heritage Land Conservation License Plate Fund is a residual effect of the corrective action from previous years. As mentioned in the finding, at the beginning of FY19 EEC management created a new and stand-alone fund for license plate receipts to be in compliance of KRS 141.465. The planned corrective action is to continue the internal controls of which were incorporated at the establishment of the fund. This will continue to ensure only license plate revenue and compliant expenditures are associated with this specific fund.*