

**REPORT OF THE AUDIT OF THE
KENTUCKY RECLAMATION GUARANTY FUND**

**For The Fiscal Year Ended
June 30, 2024**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

Rebecca Goodman, Cabinet Secretary
Kentucky Energy and Environment Cabinet
Office of the Kentucky Reclamation Guaranty Fund
300 Sower Blvd.
Frankfort, Kentucky 40601

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of the Kentucky Reclamation Guaranty Fund (KRGF), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise KRGF's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the KRGF, as of June 30, 2024, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KRGF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter for 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 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.



Responsibilities of Management for the Financial Statements

KRGF's 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, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

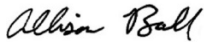
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KRGF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KRGF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Rebecca Goodman, Cabinet Secretary
Kentucky Energy and Environment Cabinet
Office of the Kentucky Reclamation Guaranty Fund
January 23, 2025
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2025 on our consideration of KRGF'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 KRGF's internal control over financial reporting and compliance.

Respectfully Submitted,

Allison Ball
Auditor of Public Accounts
Frankfort, KY

January 23, 2025

FINANCIAL STATEMENTS

KENTUCKY RECLAMATION GUARANTY FUND
BALANCE SHEET - MODIFIED CASH BASIS
JUNE 30, 2024

	<u>Office of the Reclamation Guaranty Fund</u>	<u>Kentucky Reclamation Guaranty Fund</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 240,473	\$ 63,051,939	\$ 63,292,412
Total Assets	<u>\$ 240,473</u>	<u>\$ 63,051,939</u>	<u>\$ 63,292,412</u>
Fund Balance			
Restricted (See Note 2)	\$ 240,473	\$ 63,051,939	\$ 63,292,412
Total Fund Balance	<u>240,473</u>	<u>63,051,939</u>	<u>63,292,412</u>
Total Liabilities and Fund Balance	<u>\$ 240,473</u>	<u>\$ 63,051,939</u>	<u>\$ 63,292,412</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY RECLAMATION GUARANTY FUND
STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2024**

Receipts	Office of the Reclamation Guaranty Fund	Kentucky Reclamation Guaranty Fund	Total
Tonnage Receipts	\$	\$ 1,401,020	\$ 1,401,020
Registration Fees		110,000	110,000
Bond Forfeitures		1,016,549	1,016,549
Fines and Late Fees		596,357	596,357
Interest Income	10,752	3,035,689	3,046,441
Federal Receipts	4,225		4,225
Indirect Operating Credit	26,808		26,808
Total Receipts	41,785	6,159,615	6,201,400
Expenditures			
Commodities	1,325		1,325
Salaries & Wages	115,149		115,149
Fringe Benefits	84,989		84,989
Maintenance	805		805
Rentals	21,042		21,042
Telecommunications	2,345		2,345
Postage and Printing Services	2,138		2,138
Non-Pro Contracts	83,689		83,689
Other Personnel Costs	4,616		4,616
Miscellaneous	206		206
Internal Computer Service	17,999		17,999
Supplies	44		44
Travel Expenses and Allowances	1,591		1,591
Total Expenditures	335,938		335,938
Other Financing Sources (Uses)			
Transfers In	450,000		450,000
Transfers Out		(450,000)	(450,000)
Total Other Financing Sources (Uses)	450,000	(450,000)	
Net Change in Fund Balance	155,848	5,709,615	5,865,463
Fund balance at July 1, 2023	84,625	57,342,324	57,426,949
Fund balance at June 30, 2024	\$ 240,473	\$ 63,051,939	\$ 63,292,412

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Note 1 – Nature of Organization

The Kentucky Reclamation Guaranty Fund

The Kentucky Reclamation Guaranty Fund (KRGF) was established July 1, 2013, by the Kentucky General Assembly through House Bill 66 and codified at KRS 350.500 – 350.521. KRGF is an interest-bearing account that was created for the purpose of providing additional monies for the reclamation of forfeited coal mining operations where the permit specific performance bonds are insufficient for the Commonwealth to complete reclamation to program standards. Participation in KRGF is mandatory for all companies mining coal in the Commonwealth, with certain exclusions.

The initial capitalization of KRGF was provided by the assets of the former voluntary Kentucky Bond Pool that was abolished by House Bill 66 in fiscal year 2013.

Oversight and governance of KRGF is maintained by a seven-member commission known as the Kentucky Reclamation Guaranty Fund Commission. Members are appointed by the Governor and represent the Energy and Environment Cabinet as well as the coal and financial industries. Members of the coal industry represent small, medium, and large coal producers with respect to the tonnage mined on an annual basis. Representatives from the financial industry have experience related to the coal industry. The members are appointed for terms of four years.

The Office of the Reclamation Guaranty Fund

The Office of the Reclamation Guaranty Fund (ORGF) performs administrative functions on behalf of the KRGF Commission. These duties include:

- The review and assignment of mine type classifications on an annual basis;
- Processing fee payments resulting from the annual classifications;
- Notification to mining companies of penalties and permit suspensions for late or non-payment of fees;
- Reporting annually to the Governor and Interim Joint Committee on Natural Resources and Environment;
- Implementation of audits and actuarial studies performed every two (2) years or more frequently as determined necessary by the Commission regarding the financial status and solvency of KRGF; and
- Processing claims for additional monies necessary to complete reclamation of forfeited mine permits.

ORGF is funded by a combination of KRGF monies and annual grants from the U.S. Office of Surface Mining, Reclamation, and Enforcement; no monies are received from Kentucky's General Fund.

**KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024
(Continued)**

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of KRGF is presented to assist in understanding KRGF's financial statements. The financial statements and notes are the representation of KRGF's management, who is responsible for their integrity and objectivity. These accounting policies conform to the cash basis of accounting described below and have been consistently applied in the presentation of the financial statements.

Reporting Entity

For purposes of this report, the reporting entity is KRGF. The objectives of KRGF encompass ORGF and therefore ORGF's financial activity is presented as well.

Basis of Presentation

The accompanying 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 thirty (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.

Receipts

KRGF is maintained through one-time membership fees paid by participating companies, the annual assessment and collection of coal tonnage and acre fees from those entities, late fees collected from overdue payments, accrued interest on monies in KRGF, and a share of monies collected from the Division of Mine Reclamation and Enforcement for violations and penalties issued. KRGF also receives the proceeds from the forfeitures of reclamation bonds, initially provided by coal companies to guarantee reclamation on mine sites; however, these moneys are specifically earmarked for those forfeited permits.

Restricted Fund Balances of ORGF and KRGF

The fund balances for both ORGF and KRGF represent the difference between assets and liabilities reported on their respective balance sheets. In accordance with KRS 350.503(6), "any moneys remaining in the fund at the close of a fiscal year shall not lapse but shall be carried forward into the succeeding fiscal year for use as provided in this section" (to assist in the reclamation of forfeited mine sites).

Funds are restricted, in accordance with KRS 350.503, for the purpose of reclamation, compensating the Energy and Environment Cabinet for administration costs, funding audits and actuarial studies, and covering operating and legal expenses of the Reclamation Guaranty Fund Commission.

KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024
(Continued)

Note 3 – Cash and Cash Equivalents

Participation in the Commonwealth’s Internal Cash and Investment Pool

Agency receipts are deposited in the Commonwealth’s general depository administered by the State Treasurer, who has statutory responsibility and authority to safeguard the monies. KRGF 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 Annual Comprehensive Financial Report. Accordingly, the Commonwealth of Kentucky’s Annual Comprehensive Financial Report should be referred to for disclosures required by the Governmental Accounting Standards Board. For the year ended June 30, 2024, KRGF’s position in the pool totaled \$63,051,939 and ORGF’s position in the pool totaled \$240,473.

Note 4 – Reclamation Liability

An actuarial analysis of KRGF was issued in June 2023. This report analyzed projected reclamation costs in various scenarios based on numerous assumptions which are detailed in the report. Because the statements are prepared on a modified cash basis, any potential reclamation liability and corresponding claims expense are not incurred or presented in the financial statements. For inquiries regarding this report, contact ORGF.

Note 5 – Transfers

The Transfers In on the financial statements to ORGF relate to incoming transfers from KRGF for ORGF operating expenditures.

Note 6 – Retirement and Other Post Employment Benefit Plans

The employees of ORGF participate in the Kentucky Employees Retirement Systems (KERS) of the Commonwealth of Kentucky, which is administered by the Board of Trustees of the Kentucky Retirement System. This is a cost-sharing, multiple-employer, defined benefit pension plan and other post-employment benefits (OPEB) plan covering substantially all regular full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Effective April 1, 2021, the Kentucky Public Pension Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for KERS and Kentucky Retirement Systems. The Kentucky Retirement Systems’ nine-member board of trustees is responsible for the governance of the KERS pension and insurance plans. KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature.

KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024
(Continued)

Note 6 – Retirement and Other Post Employment Benefit Plans (Continued)

Employees who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.0% of their final average salary multiplied by their years of service. The final average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after 27 years of service and receive full benefits, or retire after age 55 and receive reduced benefits. KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

Covered employees hired after December 31, 2013, are eligible to participate in a cash balance plan which requires employees to pay a pre-tax 5% rate based on creditable compensation. The employee's account is also credited with a 4% employer pay credit. In addition to the 5% contribution, all active employees participating on or after January 1, 2014, pay a 1% pretax contribution to KERS Insurance Fund. At the end of each fiscal year, interest is paid into the employee's account. The account is guaranteed a 4% interest credit on the employee's account balance as of June 30 of the previous year. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4%. At the time of termination, the employee is eligible to either take a refund of the accumulated account balance if vested (five or more years of service) or annuitize their account balance, if eligible for retirement. If the employee terminates employment and requests a refund prior to vesting, the employee is eligible only for the employee's contributions and associated interest and forfeits the employer pay credit and associated interest.

The Kentucky Employees Retirement System (KERS) Non-Hazardous Plan is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). It is a cost-sharing other post employment benefits (OPEB) plan. Contribution rates for OPEB for employers and employees are established by Kentucky Revised Statutes. Members participating prior to September 1, 2008, do not contribute to the OPEB plan directly. Instead, assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and prorated allocation of investment returns. Members hired on or after September 1, 2008, contribute 1% of their official salary. Employer contribution rates are actuarially determined and established in the Budget Bill.

Ten-year historical trend information showing KERS progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the Kentucky Retirement System's Annual Comprehensive Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Annual Comprehensive Financial Report (ACFR) should be referred to for additional disclosures related to KERS.

Because these financial statements are prepared on the modified cash basis, certain disclosures and financial statement accounts related to GASB 68 and GASB 75 are not applicable and therefore not included in the financial statements or notes to the financial statements. For disclosures related to GASB 68 and GASB 75, see the Commonwealth of Kentucky's ACFR.

KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024
(Continued)

Note 6 – Retirement and Other Post Employment Benefit Plans (Continued)

In addition to the above defined benefit pension plan, ORGF's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Commonwealth of Kentucky's ACFR should be referred to for additional disclosures related to the deferred compensation plan.

Pension Information

Kentucky Employees System			
Governance KRS 61.510 through KRS 61.705			
Cost Sharing Multiple Employer Defined Benefit			
Non-Hazardous			
	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller.	No reduced retirement benefit

KENTUCKY RECLAMATION GUARANTY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024
(Continued)

Note 6 – Retirement and Other Post Employment Benefit Plans (Continued)

Other Post Employment Benefit Information

Kentucky Employees Retirement System
Governance KRS 61.510 -61.705
Cost Sharing Multiple Employer Defined Benefit Plan

Plan Administrator: The plan is administered by the Kentucky Employees Retirement System.

Covered Employees: Recipient of a retirement benefit from Kentucky Employees Retirement System are eligible to receive health care benefits.

Benefit Formula: For participation prior to 7/1/2003 hospital and medical insurance premium payments for the retiree and their qualifying dependents is based on years of service (see chart below). If on or after 7/1/2003 but before 9/1/2008 10 years of earned service at retirement is required to be eligible for the insurance benefit. That benefit is \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually. The participant must agree to pay the balance of the premium in order to participate.

Traditional Defined Benefit Plan		Hybrid Benefit Plan		Hybrid Benefit Plan	
Participation prior to 7/1/2003		Participation between 7/1/2003 and 8/31/2008		Participation on or after 9/1/2008	
Months of Service	% of premium paid	Months of Service	Premium Payments	Months of Service	Premium Payments
<48	0%	<119	0	<179	0
48 to 119 inclusive	25%	120 or more	\$10 per month for each year of service without regard to a maximum dollar amount adjusted annually	180 or more	\$10 per month for each year of service without regard to a maximum dollar amount adjusted by 1.5% annually
120 to 179 inclusive	50%				
180 to 239 inclusive	75%				
240 or more	100%				

Cost of Living Adjustment (COLA):

Health Insurance Hybrid Benefit Plan receive 1.50% increase contribution each July 1.

Contribution Rate:

Contribution rates for the employer are actuarially determined. The Traditional plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of the accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and prorated allocations of investment returns. All Hybrid plan members contribute 1% of their salary.

Publicly available financial report can be accessed at <https://kyret.ky.gov>

**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***



ALLISON BALL
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

Rebecca Goodman, Cabinet Secretary
Kentucky Energy and Environment Cabinet
Office of the Kentucky Reclamation Guaranty Fund
300 Sower Blvd.
Frankfort, Kentucky 40601

We have audited, in accordance with the 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 modified cash basis financial statements of the Kentucky Reclamation Guaranty Fund (KRGF) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise KRGF's basic financial statements, and have issued our report thereon dated January 23, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KRGF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KRGF's internal control. Accordingly, we do not express an opinion on the effectiveness of KRGF'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.



Rebecca Goodman, Cabinet Secretary
Kentucky Energy and Environment Cabinet
Office of the Kentucky Reclamation Guaranty Fund
(Continued)

Our consideration of internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of financial statement findings as item 2024-ORGF-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KRGF'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*.

KRGF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on KRGF's response to the findings identified in our audit and described in the accompanying schedule of financial statement findings. KRGF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 the entity's internal control or on 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.

Respectfully submitted,

Allison Ball

Allison Ball

Auditor of Public Accounts

Frankfort, KY

January 23, 2025

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

KENTUCKY RECLAMATION GUARANTY FUND
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
June 30, 2024

2024-ORGF-001: The Office Of Reclamation Guaranty Fund Failed To Ensure Adequate Internal Controls Were In Place For Financial Reporting

Condition and Context

The Office of Reclamation Guaranty Fund (ORGF) prepares financial statements every two years for audit purposes. ORGF failed to ensure the accuracy of the financial statements for fiscal year (FY) 2024. A transfer out of \$450,000 was not reported for the Kentucky Reclamation Guaranty Fund (KRGF). In addition, \$284,229 was reported as a transfer in for the KRGF fund. This amount was transferred from an escrow account, which was being retained until a certain litigation was complete. However, the funds were related to bond forfeitures (\$263,200) and interest income (\$21,029).

Cause

In reporting the transfers out for KRGF on the operating statement, ORGF did not include all transfers out of the fund. This resulted in the overstatement of transfers out for KRGF. Receipt of funds from an escrow account was categorized as transfers in for KRGF and the funds were related to bond forfeitures and interest income. This resulted in an overstatement of transfers in and an understatement of bond forfeitures and interest income. The net result was zero to the fund balance for this instance. Internal controls were ineffective in preventing or detecting this error prior to the submission of the financial statements.

Effect

ORGF presented incorrect transfers out information in the financial statement. Had this error not been detected and corrected during the audit process, KRGF's transfers out would have been understated by \$450,000 and the ending fund balance would have been overstated by the same amount, \$450,000. In addition, ORGF presented incorrect fund receipt information in the transfers in on the financial statement. Had this error not been detected and corrected during the audit process, KRGF's transfers in would have been overstated by \$284,229 and bond forfeitures would have been understated by \$263,000 and interest income would have been understated by \$21,029.

Criteria

An effective internal control system requires management to develop policies and procedures sufficient to ensure accurate accounting and financial reporting, whereby the financial statements are reliable, inclusive of all activities and transactions reflected in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Implementation of control activities should focus on the prevention, detection, and correction of errors, omissions, and/or misstatements. Effective internal controls over data compilation require a review to ensure the correct information is presented on the financial statements in accordance with generally accepted accounting principles.

KENTUCKY RECLAMATION GUARANTY FUND
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
June 30, 2024
(Continued)

2024-ORGF-001: The Office Of Reclamation Guarantee Fund Failed To Ensure Adequate Internal Controls Were In Place For Financial Reporting (Continued)

Recommendation

ORGF should ensure policies and procedures are designed and followed properly to ensure the accuracy and completeness of all financing sources when completing the financial statements. Additionally, ORGF should ensure internal controls are designed, implemented, and maintained appropriately to enable the reporting of accurate and complete data for financial statement preparation. Internal controls that oversee the preparation of the financial statements should include proper review processes. These processes need to be followed and enforced to guarantee the prepared financial statements have accurate, substantiated, and dependable information.

Management's Response and Planned Corrective Action

ORGF prepares financial statements every two years for APA as stated in the Record of Control Weakness (RCW) document submitted to the agency on 12/12/24. It is important to note that these statements are not the routine financial documents prepared by the agency, instead they are forms APA requires the agency to complete so APA can perform their audit.

One of the "transfers" as referenced in the "condition and context" section of the RCW was listed as a transfer; however, APA would like this categorized under Receipts. This amount of \$284,229.04 was transferred from escrow accounts into one of the three accounts tied to the ORGF. All accounting nomenclature with this action is "transfer"; which lead to ORGF staff documenting this action as such.

The other "transfer" in question was \$450,000 that was inadvertently left off one column of the financial report ORGF was asked to complete. This amount was included in other spreadsheets of backup information that the agency submitted to APA and was discussed thoroughly in conversations between the agency and the assigned auditor. This transaction was reported in various ways to APA, it was just not in the apparent correct spot for the financial statements.

Over the course of this audit, there has been several conversations between our assigned auditor and agency staff to fully explain what transactions are occurring and how the agency functions; most of which has led to confusion on both sides. Agency staff are not accountants and were not experienced with financial statements in the format required by APA. While the agency does not agree there is an internal control weakness in the management of these accounts, they are now better prepared for future audits by understanding APA's expectations more thoroughly.

**KENTUCKY RECLAMATION GUARANTY FUND
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
June 30, 2024
(Continued)**

2024-ORGF-001: The Office Of Reclamation Guarantee Fund Failed To Ensure Adequate Internal Controls Were In Place For Financial Reporting (Continued)

Auditor's Reply

ORGF requires an audit per KRS 350.509(3). An audit contains a report on financial statements. It is management's responsibility to produce the financial statements and ensure their accuracy. While not required to be completed, the APA provided forms/excel documents to ORGF staff to assist with the completion of their financial statements and notes. The APA discussed with ORGF staff that APA auditors are required to audit their financial statements and notes as they are presented to us.