



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Charles Snavelly, Secretary
Kentucky Energy and Environment Cabinet

We have audited the financial statements of the Kentucky Reclamation Guaranty Fund (KRGF) as of and for the year ended June 30, 2018 and have issued our report thereon dated September 24, 2018.

Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, requires us to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility over the KRGF financial reporting process.

This information is intended solely for the information and use of the KRGF management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

September 24, 2018



Required Communications

Statement on Auditing Standards AU-C 260 requires the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist them in overseeing management's financial reporting and disclosure process. For purposes of this statement "those charged with governance" means the person(s) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity, which includes overseeing the financial reporting process. We have identified the Kentucky Reclamation Guaranty Fund's members as individuals charged with governance. As permitted by auditing standards, we are providing communications to a representative of this group of individuals, which we have determined to be the Board Chair, and are also providing copies of the letter to the Kentucky Reclamation Guaranty Fund's management.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 1, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with the modified cash basis of accounting. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of KRGF solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We are required to communicate to those charged with governance significant audit findings that may be useful in overseeing the Kentucky Reclamation Guaranty Fund's operations. We documented one finding in the audit report dated September 24, 2018 classified as a significant deficiency.

Planned Scope and Timing of Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you. As mentioned above, the scope of our audit consisted of the basic financial statements of the Kentucky Reclamation Guaranty Fund.

The specific elements covered during our audit of the Kentucky Reclamation Guaranty Fund's financial statements took into consideration the concepts of materiality and risk of material misstatement. As opposed to only relying on dollar thresholds for scope decisions, our audit considered specific items that were deemed to be individually material either qualitatively or quantitatively, and also considered specific risk factors that came to light in gaining an understanding of the Kentucky Reclamation Guaranty Fund. During the execution of the audit, additional risk factors were considered as they became known.

The determination of specific elements within our scope impacted the timing of procedures. Riskier areas are tested closer to the balance sheet date, whereas certain areas permit the reliance on internal controls and testing of transactions performed throughout the year.

Compliance with All Ethics Requirements Regarding Independence

The engagement team for this engagement and others in our agency has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Practices

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Kentucky Reclamation Guaranty Fund is included in Note 2 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

We evaluated the key factors and assumptions used to develop any accounting estimates, where applicable, and determined that the estimates used are reasonable in relation to the basic financial statements taken as a whole.

Qualitative Aspects of the Entity's Significant Accounting Practices (Continued)

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. We believe the financial statement disclosures affecting Kentucky Reclamation Guaranty Fund financial statements are sufficient, consistent, and generally acceptable.

Identified or Suspected Fraud

We did not identify or obtain any information that indicates fraud may have occurred or be suspected.

Significant Difficulties Encountered During the Audit

We are required to inform those charged with governance of any significant difficulties encountered during the audit, including significant delays in obtaining information, extensive unexpected effort required to obtain sufficient appropriate audit evidence, the unavailability of expected information, and other matters.

The employees and management of Kentucky Reclamation Guaranty Fund provided the auditors with appropriate, timely documentation, and made time available to assist auditors in the performance of audit procedures. The auditors appreciate all of the time and assistance provided to them during the conduct of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that the auditor believes are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Based on our audit, no misstatements were presented to management for consideration.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Kentucky Reclamation Guaranty Fund financial statements or the auditor's report. There were no disagreements with management about matters that could be significant to the financial statements or our report thereon.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached management representation letter, dated September 24, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Kentucky Reclamation Guaranty Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition affecting our retention as Kentucky Reclamation Guaranty Fund auditors.



MATTHEW G. BEVIN
GOVERNOR

CHARLES G. SNAVELY
SECRETARY

ENERGY AND ENVIRONMENT CABINET
DEPARTMENT FOR NATURAL RESOURCES

JOHN D. SMALL
COMMISSIONER

300 SOWER BOULEVARD
FRANKFORT, KENTUCKY 40601

September 24, 2018

Mike Harmon
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

ATTN: Autumn Drane

This representation letter is provided in connection with your audit of the financial statements of the Kentucky Reclamation Guaranty Fund (KRGF) as of 6/30/18 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of KRGF in accordance with the modified cash basis of accounting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 24, 2018:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 3, 2018 for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with the modified cash basis of accounting.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the modified cash basis of accounting.
- All events subsequent to the date of the financial statements and for which the modified cash basis of accounting requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with the modified cash basis of accounting.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items, if any, have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with the modified cash basis of accounting.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

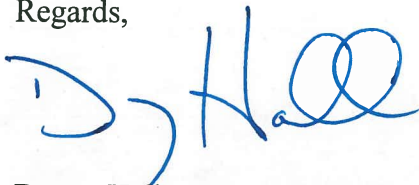
Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- KRGF has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which KRGF is contingently liable.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
- KRGF has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

With respect to non-attest services provided by the APA:

- We retain all management responsibilities.
- We oversaw the non-attest activities performed by the APA.
- We evaluated the adequacy and results of the services performed.
- We accept responsibility for the results of the services performed.
- We accept that financial data used to complete journal entries and financial statement disclosures were extracted from KRGF records.

Regards,

A handwritten signature in blue ink, appearing to read 'D. Hall', with a stylized flourish at the end.

Danny Hall, Executive Director
Office of the Reclamation Guaranty Fund