



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

February 11, 2020

To the Honorable Andy Beshear, Governor
Holly McCoy-Johnson, Secretary
Finance and Administration Cabinet
Edgar C. Ross, Controller

We have audited the financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2019, and have issued our report thereon dated December 12, 2019. Our report is contained within the Commonwealth's Comprehensive Annual Financial Report (CAFR). Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 15, 2019, 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 accounting principles generally accepted in the United States of America. 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 the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Commonwealth of Kentucky 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 will provide our findings regarding significant control deficiencies and material weaknesses over financial reporting, as well as any material noncompliance and other matters noted during our audit in a separate report called the Statewide Single Audit of Kentucky (SSWAK), which was issued on February 11, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, our agency, and the network of CPA firms that perform component audit work in conjunction with the Commonwealth of Kentucky's CAFR have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commonwealth of Kentucky is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year ending June 30, 2019. 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.

The most sensitive accounting estimates affecting the financial statements are related to the pension and other post-employment benefits (OPEB) liabilities and their related expenses and deferred inflows and outflows of resources for plans administered by the Kentucky Retirement Systems and Kentucky Teacher's Retirement Systems.

Management's estimate of the pension and OPEB amounts is based on actuarial calculations which identify the plan liabilities and also the Commonwealth of Kentucky's proportionate share of those liabilities. We evaluated the Commonwealth's use of the actuarial calculations and adherence to reporting standards promulgated by the Governmental Accounting Standards Board related to the pension and OPEB amounts and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Commonwealth of Kentucky's financial statements relate to: revenue recognition, fair values of investments, pension and OPEB liabilities, and other long-term liabilities.

Identified or Suspected Fraud

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

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit. We appreciated the cooperation of management and staff in various state agencies for providing critical information needed in the performance of our work.

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 we believe 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 and each applicable opinion unit. The uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit, are included in the attached letter of representations requested from management.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

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 Commonwealth of Kentucky's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Honorable Andy Beshear, Governor
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Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated December 12, 2019. These representations are attached.

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 than those firms that are engaged, with our approval, to compile or audit component financial statements.

Other Significant Matters, Findings, or Issues

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

This report is intended solely for the information and use of those charged with governance and management of the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts



Commonwealth of Kentucky
FINANCE AND ADMINISTRATION CABINET
OFFICE OF THE CONTROLLER

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Andy Beshear
Governor

Holly M. Johnson
Secretary

Edgar C. Ross
Controller

December 12, 2019

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

ATTN: Matt Rice, CPA

This representation letter is provided in connection with your audit of the financial information reported within the basic financial statements of the Commonwealth of Kentucky as of June 30, 2019 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 the Commonwealth of Kentucky in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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 December 12, 2019:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement April 15, 2019, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- 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 U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.
- 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 U.S. GAAP.
- 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 funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- 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 revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- 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.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- 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 U.S. GAAP.
 - 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 disclosed to you 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 disclosed to you any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible 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.
- We have disclosed to you all communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Commonwealth of Kentucky 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 the Commonwealth of Kentucky is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- 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.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Commonwealth of Kentucky 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.
- We have provided you with information regarding all pending environmental remediation claims.
- Provision for loss has been made, in accordance with the applicable financial reporting framework, for any material loss that is probable from the environmental remediation liabilities.
- We believe our estimate is reasonable based on information available as of December 12, 2019 and that our responsibilities have been adequately disclosed in the financial statements.

- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.
- Provisions for uncollectible receivables have been properly identified and recorded.
- The methods and significant inputs and assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes. Additional disclosures have been made in accordance with GASB 72.
- Tax-exempt bonds issued have retained their tax-exempt status.
- The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: (a) the extent, nature, and terms of financial instruments with off-balance-sheet risk, (b) the amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments, and (c) significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We have not completed the process of evaluating the effect that will result from adopting the guidance in Governmental Accounting Standards Board (GASB) Statement 83 as the amount cannot be reasonably determined at this time. We are therefore unable to disclose the effect that adopting the guidance will have on its financial position and the results of operations. We believe this amount is immaterial to the financial statements.

With respect to federal award programs:

- We are responsible for understanding and complying with and have complied with the requirements of Title 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (the Uniform Guidance).
- We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
- We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
- The methods of measurement or presentation have not changed from those used in the prior period.
- We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
- We have notified you of federal awards and funding increments that were received before December 26, 2014, and differentiated those awards from awards and funding increments received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
- We have complied with all ARRA-related compliance requirements.
- We have, in accordance with the Uniform Guidance: identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees,

property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.

- We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors, regulators, or others.
- We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- We have a process to track the status of audit findings and recommendations.
- We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.
- We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.
- We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We have monitored subrecipients to determine if they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- We have issued management decisions timely after the receipt of subrecipients' auditor reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that the subrecipients have taken the appropriate and timely corrective action on findings.
- We have considered the results of subrecipients' audits and have made any necessary adjustments to our own books and records.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- We are responsible for preparing and implementing a corrective action plan for each audit finding.
- We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- To the best of our knowledge and belief, no events have occurred subsequent to June 30, 2019 and through the date of this letter that would require adjustment to or disclosure in the aforementioned schedule of expenditures of federal awards or schedule of findings and questions costs.

With respect to the other supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the supplementary information in accordance with U.S. GAAP.
- We believe the other supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
- The methods of measurement or presentation have not changed from those used in the prior.
- We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended

users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

With respect to the required supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with the Governmental Accounting Standards Board (GASB) in relation to Management's Discussion and Analysis, budgetary comparison schedules, infrastructure assets reported using the modified approach, claims development information for entity risk pools, and information related to pensions and OPEB.
- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP and GASB.
- The methods of measurement or presentation have not changed from those used in the prior period.



(Signature of Chief Executive Officer)

(Signature of Chief Financial Officer)

The Commonwealth of Kentucky
SUMMARY OF AUDIT DIFFERENCES
Year Ended 2019

Unadjusted audit differences:	Current Year Over (Under) Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
Recognize Horse Park Capital Assets Omitted- Increase Asset and Decrease Expense- Business Type Activities Opinion Unit	\$ 19,489
Net Pension/OPEB Liability & Expense- Reduce Expense and Liability- Government Wide Opinion Unit	\$ (59,061,965)
Cumulative effect (before effect of prior year differences)	
Effect of unadjusted audit differences—prior year:	
Cumulative effect (after effect of prior year differences)	KY Horse Park- Net Position Understated by: \$19,489
	Government Wide Statements: Net Position Understated by: \$59,061,965

Reclassification adjustments:	Balance Sheet	Statement(s) of Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
\$	\$	