



Auditor of Public Accounts  
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
502.564.5841  
502.209.2867

**Auditor Mike Harmon Releases Audit of  
Barren River Area Development District**

*Audit by Auditor Harmon's Office is Second ADD Audit under New Law*

**FRANKFORT, Ky. (December 15, 2021)** – Kentucky Auditor Mike Harmon traveled to Bowling Green today to release the Fiscal Year 2021 audit of the Barren River Area Development District (BRADD). Auditor Harmon and his audit staff discussed the audit and its one finding during a meeting of BRADD's board.

"The audit of BRADD is the second ever financial audit conducted by my office under authority granted to us by the General Assembly in 2017," said Auditor Harmon. "House Bill 189, sponsored by former Representative Jim DeCesare of Bowling Green, and Representative Susan Westrom of Lexington, gives the Office of the Auditor of Public Accounts the right to either audit area development districts by our own staff, or review ADD audits conducted by private accounting firms. This means taxpayers will have more transparency of how ADDs are using public dollars, leading to more accountability to those they serve in their communities."

Auditor Harmon worked with the Kentucky Council of Area Development Districts, the Kentucky Chamber of Commerce, and others on House Bill 189 which passed unanimously in the House and Senate during the 2017 session of the General Assembly.

The fiscal year 2021 audit of BRADD has one finding:

**The Barren River Area Development District Failed To Implement Adequate Internal Controls Over Financial Statement Preparation And Presentation:** The Barren River Area Development District (BRADD) failed to implement adequate internal controls over the preparation of financial statements. As a result, the following material errors were noted:

- BRADD’s required budgetary comparison financial information did not include actual budget amounts. The prior year actual expenditures were brought forward and erroneously presented as BRADD’s original and final budget amounts on budgetary comparison schedules.
- The governmental fund balance sheet for fiscal year 2021 erroneously included \$311,444 of special revenue fund inter-account activity.
- Cash of \$115,612 was erroneously classified as restricted on the Government-Wide Statement of Net Position and the General Fund Balance Sheet.
- Fiduciary type activity totaling \$74,886 was incorrectly presented as part of BRADD’s general fund balance and accounts payable as of June 30, 2021.

BRADD’s system of internal controls failed to ensure that financial statements are prepared and presented in accordance with *Governmental Accounting and Financial Reporting Standards* and failed to identify and correct these material misstatements.

Providing incorrect financial information to stakeholders such as grantors and other users could cause them to make incorrect financial evaluations of the financial position of BRADD. The errors above reflect incorrect amounts of funds available to BRADD for spending as well as causing BRADD’s financial statement presentation to not conform to *Governmental Accounting and Financial Reporting Standards*.

Good internal controls require adequate review of financial statements in order to detect and correct any misstatements or errors. Good internal controls also dictate that those charged with governance properly monitor the budget and document this oversight function.

Additionally *Governmental Accounting and Financial Reporting Standards* require specific elements of financial statement presentation. The following *Governmental Accounting and Financial Reporting Standards* prescribe the required preparation and presentation of BRADD’s financial statements:

1. GASB 63 paragraph 12. states, “Deferred outflows of resources and deferred inflows of resources that are required to be reported in a governmental fund balance sheet should be presented in a format that displays assets plus deferred outflows of resources, equals liabilities plus deferred inflows of resources, plus fund balance.” Since the additional due to and due from amounts were not related to activity between the governmental funds, it should have been eliminated.
2. GASB 54 paragraph 8. states, “fund balance should be reported as restricted when constraints placed on the use of resources are either:
  - a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
  - b. Imposed by law through constitutional provisions or enabling legislation.”

3. GASB 84 paragraph 11c.(3) addresses fiduciary activities and states activity is fiduciary in nature if the following criteria is met: “[t]he assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.”

We make the following recommendations to BRADD to prevent and correct the issues noted above.

- BRADD should establish sufficient controls to properly monitor the budget, which includes seeking approval for mid-year budget amendments as circumstances warrant and maintaining documentation of approval of budget increases or decreases. This documentation should include the official approval of budget increases in order for those charged with governance to know changes in the budget and related programs. Required budgetary comparison information governed by *Governmental Accounting and Financial Reporting Standards* should reflect actual budgetary amounts approved by the BRADD board of directors.
- BRADD should properly eliminate any activity that occurs between accounts within the same fund so as not to overstate assets and liabilities.
- BRADD should properly designate fund balances so that the governing board is aware of cash balances that are available to spend.
- BRADD should properly disclose funds included in the financial statements that are being held for another entity.

Management’s Response and Planned Corrective Action:

- *Actuals vary at the time of the Original Budget due the nature of contracting; therefore adjustments are presented quarterly and updates to contract funding reported monthly. BRADD routinely, at least quarterly, discusses budget amendments with the Executive Council throughout the fiscal year. The original budgeted amounts presented prior to the start of the fiscal year will be reported as the Original Budget. The final fourth quarter budgeted amount presented after the close of the fiscal year will be reported as the Final Budget.*
- *Due to and due from amounts within the special revenue funds will be eliminated.*
- *BRADD’s Fund Balance is classified properly on the financial statements. Upon dissolution of Barren River Development Council (BRDC), funds were contributed to BRADD with the intent those funds be used only for the maintenance of the building. BRDC minutes clearly reflect the intent of the funds as restricted. GASB standards allow classification of restricted funds (externally enforceable limitation on use) permissible by definition; the BRDC is a contributor whose constraints placed on the use of resources were externally imposed. BRADD management has shown those as restricted funds based upon the constraints set forth by BRDC.*

*Funds being held for other entities will be shown as Fiduciary Funds.*

**Auditor's Reply:**

In order for funds to meet the definition of restricted according to GASB 54, the constraints must have been externally imposed by the contributor. While there is indication that BRDC intended for the funds to be restricted, BRDC did not include the restriction in their distribution instructions when funds were passed to BRADD. Therefore the fund balance restriction does not meet criteria imposed by GASB 54.

The BRADD audit, which can be reviewed [here](#), is the second area development district audit to be released by Auditor Harmon's office. Last week, his office released the audit of the Green River Area Development District, which you can review [here](#).

**###**

*The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.*

*Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.*

