

REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
CLERK

FOR THE YEAR ENDED
DECEMBER 31, 2013



ADAM H. EDELEN

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY CLERK

**For The Year Ended
December 31, 2013**

The Auditor of Public Accounts has completed the Whitley County Clerk's audit for the year ended December 31, 2013. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$59,366 from the prior year, resulting in excess fees of \$476 as of December 31, 2013. Revenues decreased by \$414,202 from the prior year and expenditures decreased by \$354,836.

Debt Obligations:

Total debt principal as of December 31, 2013, was \$13,569. Future collections are needed over the next 2 years to pay all debt principal and interest.

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Kay Schwartz, Whitley County Clerk
Members of the Whitley County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Whitley County, Kentucky, for the year ended December 31, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Kay Schwartz, Whitley County Clerk
Members of the Whitley County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Clerk, as of December 31, 2013, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2013, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2014 on our consideration of the Whitley County Clerk'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 the Whitley County Clerk's 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 entity's internal control over financial reporting and compliance.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 3, 2014

WHITLEY COUNTY
KAY SCHWARTZ, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2013

Revenues

State Fees For Services	\$	10,917
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Fiscal Court		96,056
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	1,073,443
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Usage Tax		1,664,313
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Tangible Personal Property Tax		2,489,178
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Notary Fees		12,660
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Other-

Fish and Game Licenses		3,486
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Marriage Licenses		14,839
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Ad Valorem Lien Fees		23,410
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Deed Transfer Tax		45,868
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Delinquent Tax		621,381
		5,948,578

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		19,315
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Real Estate Mortgages		37,213
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Chattel Mortgages and Financing Statements		100,675
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Powers of Attorney		2,561
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Affordable Housing Trust		30,636
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Bail Bonds		1,876
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Leases		1,848
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Liens and Lis Pendens		11,305
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Releases		16,198
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Wills and Estate Settlements		767
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All Other Recordings		5,835
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Charges for Other Services-

Candidate Filing Fees		2,450
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Copywork		19,164
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Refunds/Overpayments		13,021
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Postage		1,441
		264,305

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

WHITLEY COUNTY
 KAY SCHWARTZ, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2013
 (Continued)

Revenues (Continued)

Other:

Credit Card Fees	\$	6,840	
NSF Fees		980	
Cash Drawer Transactions		10	
Account Transfers		621	
Miscellaneous		<u>3,061</u>	\$ 11,512

Interest Earned		<u>234</u>	
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Total Revenues			6,331,602
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Expenditures

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	752,176	
Usage Tax		1,614,266	
Tangible Personal Property Tax		1,019,047	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		3,334	
Delinquent Tax		79,773	
Legal Process Tax		33,080	
Affordable Housing Trust		<u>30,636</u>	3,532,312

Payments to Fiscal Court:

Tangible Personal Property Tax	174,938	
Delinquent Tax	57,887	
Deed Transfer Tax	43,574	
Franchise Bank Deposits	<u>77,913</u>	354,312

Payments to Other Districts:

Tangible Personal Property Tax	1,195,631	
Delinquent Tax	<u>274,915</u>	1,470,546

Payments to Sheriff	47,469
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Payments to County Attorney	80,919
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The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
 KAY SCHWARTZ, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2013
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 387,373
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Employee Benefits-

Employer's Share Social Security	35,424
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Employer's Share Retirement	91,069
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Employer's Paid Health Insurance	96,610
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Contracted Services-

Office Equipment & Agreements	7,284
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Lease - Software Management	37,348
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Professional Services	345
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Materials and Supplies-

Office Supplies	12,243
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Other Charges-

Conventions and Travel	2,097
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Dues	1,320
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Postage	7,351
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Election Expense	3,600
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Refunds	36,258
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Insurance and Bonds	6,505
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Bank Transactions/NSF/Cks	3,413
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Branch Office Rent	12,000
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Mileage Reimbursement	5,362
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Miscellaneous	39	\$ 745,641
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Total Expenditures	<u>\$ 6,231,199</u>
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Net Revenues	100,403
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Less: Statutory Maximum	<u>92,475</u>
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Excess Fees	7,928
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Less: Expense Allowance	3,600
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Training Incentive Benefit	<u>3,852</u>	<u>7,452</u>
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Balance Due Fiscal Court at Completion of Audit *	<u>\$ 476</u>
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* - The County Clerk presented a check to the Fiscal Court for excess fees on June 4, 2014.

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2013

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2013 services
- Reimbursements for 2013 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2013

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2013
 (Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent for the first six months and 18.89 percent for the last six months.

The county's contribution for FY 2011 was \$80,139, FY 2012 was \$87,460, and FY 2013 was \$91,069.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2013
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Whitley County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Whitley County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

The Whitley County Clerk's office was committed to the following lease agreements as of December 31, 2013:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2013
Copier	\$ 188	60 months	12/31/2015	\$ 4,523
Copier	\$ 188	60 months	12/31/2015	\$ 4,523
Copier	\$ 188	60 months	12/31/2015	\$ 4,523
Total				<u>\$ 13,569</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2013
(Continued)

Note 5. Delinquent Tax Account

The Office of the County Clerk maintains a delinquent tax bank account to accept partial payments on delinquent tax bills. When a bill is paid in full, it is transferred out of the delinquent tax account and deposited into the fee account. The revenues from these partial payments are not considered as excess fees until after being transferred to the fee account. As of December 31, 2012, the Clerk had a balance of \$68,360 in the Delinquent Tax Account. During 2013, the Clerk deposited \$87,623 of partial payments of delinquent tax bills and disbursed \$113,268. The account balance was \$42,715 as of December 31, 2013.

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Kay Schwartz, Whitley County Clerk
Members of the Whitley County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of revenues, expenditures, and excess fees - regulatory basis of the Whitley County Clerk for the year ended December 31, 2013, and the related notes to the financial statement and have issued our report thereon dated June 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Whitley County Clerk's internal control over financial reporting to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Whitley County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Whitley County Clerk'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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.

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 over financial reporting that might be material weaknesses or significant deficiencies. 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. However, material weaknesses may exist that have not been identified.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Clerk's financial statement is 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.

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,



Adam H. Edelen
Auditor of Public Accounts

June 3, 2014