

REPORT OF THE AUDIT OF THE  
**WHITLEY COUNTY**  
**CLERK**

FOR THE YEAR ENDED  
DECEMBER 31, 2012



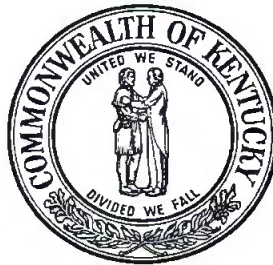
**A D A M H . E D E L E N**

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**REPORT OF THE AUDIT OF THE  
WHITLEY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2012**



**ADAM H. EDELEN  
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## EXECUTIVE SUMMARY

### AUDIT EXAMINATION OF THE WHITLEY COUNTY CLERK

For The Year Ended  
December 31, 2012

The Auditor of Public Accounts has completed the Whitley County Clerk's audit for the year ended December 31, 2012. 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 \$43,578 from the prior year, resulting in excess fees of \$59,842 as of December 31, 2012. Revenues increased by \$67,222 from the prior year and expenditures increased by \$110,800.

#### **Debt Obligations:**

Total debt principal as of December 31, 2012, was \$20,919. Future collections are needed over the next three (3) years to pay all debt principal.

#### **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, 2012, 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 the 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 the 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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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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, 2012, or changes in financial position or cash flows thereof for the year then ended.

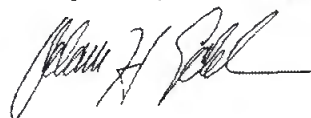
**Opinion on Regulatory Basis of Accounting**

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, 2012, 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 27, 2013 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 27, 2013

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

For The Year Ended December 31, 2012

Revenues

State Grants - Libraries and Archives	\$	32,703	
State Fees For Services			17,692
Fiscal Court:			
Election Expense	\$	85,118	
Board of Assessment Appeals		1,300	
Tax Bill Preparation		5,725	
Office Remodel Reimbursement		9,886	102,029
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers		1,076,779	
Usage Tax		1,751,444	
Tangible Personal Property Tax		2,449,442	
Other-			
Fish and Game Licenses		3,157	
Marriage Licenses		14,981	
Notary Fees		6,876	
Tangible Property Lien Fees		23,608	
Deed Transfer Tax		40,344	
Delinquent Tax		854,852	6,221,483
Fees Collected for Services:			
Recordings-			
Bail Bonds		822	
Title Lien Statements		104,478	
Deeds, Easements and Contracts		16,877	
Leases		1,048	
Liens and Lis Pendens		14,659	
Power of Attorney		2,287	
Releases		7,499	
Real Estate Mortgages		26,278	
Wills and Estate Settlements		768	
Affordable Housing Trust		29,993	
All Other Recordings		31,782	

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, 2012  
 (Continued)

Revenues (Continued)

Fees Collected for Services: (Continued)

Charges for Other Services-

Candidate Filing Fees	\$	870	
Copywork		18,291	
Postage		636	\$ 256,288
			<hr/>

Other:

Franchise Bank Deposits		89,964	
Refunds and Overpayments		5,610	
Miscellaneous		8,865	
Accounts Receivable		10,277	114,716
			<hr/>

Interest Earned			893
			<hr/>

Total Revenues			6,745,804
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	750,065	
Usage Tax		1,699,567	
Tangible Personal Property Tax		1,000,827	

Licenses, Taxes, and Fees-

Fish and Game Licenses		2,976	
Marriage Licenses		9,394	
Delinquent Tax		109,929	
Legal Process Tax		23,552	
Affordable Housing Trust Fund		31,782	3,628,092
			<hr/>

Payments to Fiscal Court:

Tangible Personal Property Tax		172,617	
Delinquent Tax		77,108	
Deed Transfer Tax		38,327	
Franchise Bank Deposits		89,964	378,016
			<hr/>

Payments to Other Districts:

Tangible Personal Property Tax		1,179,478	
Delinquent Tax		398,403	1,577,881
			<hr/>

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, 2012  
 (Continued)

Expenditures (Continued)

Payments to Sheriff		\$	70,378
Payments to County Attorney			116,503
Operating Expenditures and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	\$	374,050	
Employee Benefits-			
Employer's Share Social Security		36,210	
Employer's Share Retirement		87,460	
Employer's Paid Health Insurance		77,498	
Contracted Services-			
Advertising		345	
Office Equipment & Agreements		762	
Software Maintenance		30,206	
Materials and Supplies-			
Office Supplies		27,308	
Other Charges-			
Branch Office Rent		12,000	
Conventions and Travel		1,680	
Dues		1,320	
Election Expense		73,726	
Insurance and Bonds		6,505	
Mileage reimbursement		6,328	
Miscellaneous		3,980	
Postage		9,517	
Refunds		19,108	
Capital Outlay-			
Office Remodel and Equipment		9,886	
Libraries and Archives Equipment		32,703	810,592
			<hr/>
Debt Service:			
Lease Purchases			6,219
			<hr/>
Total Expenditures			\$ <u>6,587,681</u>

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, 2012  
 (Continued)

Net Revenues		\$	158,123
Less: Statutory Maximum			<u>90,893</u>
Excess Fees			67,230
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,788</u>	<u>7,388</u>
Excess Fees Due County for 2012			59,842
Payment to Fiscal Court - February 22, 2013			<u>55,000</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>4,842</u></u>

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

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2012

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 2012 services
- Reimbursements for 2012 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2012

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, 2012  
 (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 18.96 percent for the first six months and 19.55 percent for the last six months.

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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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, 2012  
(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, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Whitley County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$32,700. Interest in the amount of \$3 was transferred to the fee account. Funds totaling \$32,703 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2012.

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, 2011, the Delinquent Tax Account had a balance of \$67,212. During 2012, the Clerk deposited \$86,652 of partial payments of delinquent tax bills and disbursed \$85,504. The account balance was \$68,360 as of December 31, 2012.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2012  
(Continued)

Note 6. Lease Agreements

The Whitley County Clerk's office was committed to the following lease agreements as of December 31, 2012:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2012</u>
Copier	188	60 months	12/31/2015	\$ 6,973
Copier	188	60 months	12/31/2015	\$ 6,973
Copier	188	60 months	12/31/2015	\$ 6,973

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 Auditors 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, 2012, and the related notes to the financial statement and have issued our report thereon dated June 27, 2013. The County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**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.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 27, 2013