

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2017**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
The Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Warren County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Michael O. Buchanon, Warren County Judge/Executive
The Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Warren 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 statements 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 Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Warren County Clerk, as of December 31, 2017, 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Warren County Clerk and the receipts, disbursements, and fund balances of the Warren County Clerk's operating fund and county fund with the state treasurer for the year ended December 31, 2017, 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 November 8, 2018, on our consideration of the Warren County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting 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 over financial reporting and compliance.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 8, 2018

WARREN COUNTY
LYNETTE YATES, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Grant		\$ 1,482
State Fees For Services		35,921
Fiscal Court		24,473
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 3,989,362	
Usage Tax	16,711,229	
Tangible Personal Property Tax	10,775,254	
Notary Fees	20,828	
Lien Release Fees	56,118	
Miscellaneous Income	9,594	
Other-		
Marriage Licenses	35,997	
Deed Transfer Tax	757,981	
Delinquent Tax	945,006	
Miscellaneous Licenses	4,062	33,305,431
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	62,058	
Real Estate Mortgages	243,756	
Chattel Mortgages and Financing Statements	316,829	
Powers of Attorney	11,064	
Affordable Housing Trust	139,974	
All Other Recordings	111,007	
Charges for Other Services-		
Candidate Filing Fees	1,575	
Copywork	21,518	
Postage	29,122	936,903
Other:		
Refunds/Overpayments	155,878	
Cash Drawer Transactions	621	156,499
Interest Earned		374
Total Receipts		34,461,083

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 LYNETTE YATES, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 2,773,702	
Usage Tax	16,209,635	
Tangible Personal Property Tax	3,642,587	

Licenses, Taxes, and Fees-

Delinquent Tax	120,707	
Legal Process Tax	114,934	

Affordable Housing Trust	<u>139,974</u>	\$23,001,539
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Payments to Fiscal Court:

Tangible Personal Property Tax	1,212,717	
Delinquent Tax	145,285	
Deed Transfer Tax	720,081	
Miscellaneous	<u>2,494</u>	2,080,577

Payments to Other Districts:

Tangible Personal Property Tax	5,489,039	
Delinquent Tax	<u>395,051</u>	5,884,090

Payments to Sheriff

80,616

Payments to County Attorney

126,539

Other Disbursements:

Bank Service Charges	2,800	
Overpayments/Refunds	154,616	
Miscellaneous	571	
Uncollected NSF Checks	617	
Libraries and Archives	<u>1,482</u>	<u>160,086</u>

Total Disbursements \$31,333,447

Net Receipts 3,127,636

Payments to State Treasurer:

75% Operating Fund *	2,370,603	
25% County Fund	<u>757,033</u>	<u>3,127,636</u>

Balance Due at Completion of Audit

\$ 0

* Includes reimbursed expenses in the amount of \$15,209 for the audit period.
 See Note 1 of Notes to Financial Statements.

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 LYNETTE YATES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2017

	75% Operating Fund	25% County Fund	Totals
	_____	_____	_____
Fund Balance - January 1, 2017	\$ 998,159	\$	\$ 998,159
 <u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,370,603		2,370,603
Fees Paid to State - County Funds (25%)		757,033	757,033
	_____	_____	_____
Total Funds Available	3,368,762	757,033	4,125,795
 <u>Disbursements</u>			
Warren County Fiscal Court		757,033	757,033
Personnel Services-			
Official's Statutory Maximum	110,408		110,408
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	3,039		3,039
Deputies' Salaries	990,017		990,017
Employee Benefits-			
Employer's Share Social Security	81,201		81,201
Employer's Share Retirement	204,321		204,321
Employer's Share Health Insurance	136,045		136,045
Employer's Share Life Insurance	291		291
Workers' Compensation	3,346		3,346
Unemployment Insurance	3,775		3,775
Contracted Services-			
Computer Equipment	172,118		172,118
Software License Service	1,196		1,196
Copy Machines	7,765		7,765
Miscellaneous Maintenance Agreement	606		606
Tax Bill Preparation	15,200		15,200

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 LYNETTE YATES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements</u> (Continued)			
Supplies and Materials-			
Office Supplies	\$ 25,377	\$	\$ 25,377
Other Charges-			
Travel Reimbursement	2,162		2,162
Dues and Conventions	4,280		4,280
Office Equipment Maintenance	2,490		2,490
Office Equipment	3,799		3,799
Books and Maps	207		207
Postage	20,000		20,000
Miscellaneous Office Expense	2,240		2,240
Telephone	5,506		5,506
Capital Outlay-			
Office Furnishings	6,900		6,900
	<u> </u>	<u> </u>	<u> </u>
Total Disbursements	<u>1,805,889</u>	<u>757,033</u>	<u>2,562,922</u>
Fund Balance - December 31, 2017	<u>\$ 1,562,873</u>	<u>\$ 0</u>	<u>\$ 1,562,873</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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 receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the county clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, fee official office revenues could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2017

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in 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).

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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 five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county clerk's contribution for calendar year 2015 was \$177,562, calendar year 2016 was \$185,372, and calendar year 2017 was \$204,321.

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 (member's 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.

Health Insurance Coverage

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%

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Health Insurance Coverage (Continued)

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. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available financial report that includes financial statements and required supplementary information on CERS. 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.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Warren 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, 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 county clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

A. Copiers

- 1) The Warren County Clerk's office committed to a lease agreement for a copier on September 6, 2013. The original agreement required a monthly payment of \$164 for 60 months. The required monthly payment amount increased to \$171 in October 2014, \$179 in October 2015, and \$187 in October 2016. The clerk's office traded this copier in on a new copier on February 23, 2017.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 4. Leases (Continued)

A. Copiers (Continued)

- 2) The Warren County Clerk's office committed to a lease agreement for a copier on February 23, 2017. The original agreement required a monthly payment of \$263 for 48 months. The total balance of the lease was \$10,245 as of December 31, 2017.
- 3) The Warren County Clerk's office committed to another lease agreement on December 13, 2013, for two copiers. The agreement requires a monthly payment of \$365 for 60 months. The required monthly payment amount increased to \$373 in January 2015, \$383 in January 2016, and \$383 in January 2017. The total balance of the lease was \$4,733 as of December 31, 2017.

B. Postage Meter

The Warren County Clerk's office committed a lease agreement for a postage meter on March 25, 2014. The agreement requires a monthly payment of \$317 for 60 months. The total balance of the lease was \$5,382 as of December 31, 2017.

C. Software and Hardware

- 1) The Warren County Clerk's office committed a lease agreement on February 21, 2017, for computer software and hardware. The software license and service requires a monthly payment of \$7,570 for 60 months. The total balance remaining of the lease was \$378,500 as of December 31, 2017.
- 2) The hardware rental and service lease requires a monthly payment of \$6,724 for 60 months. The total balance remaining of the lease was \$336,200 as of December 31, 2017.

Note 5. Health Reimbursement Account

The Warren County Clerk's office established a health reimbursement account on January 1, 2013, to provide employees an additional health benefit. The county clerk's office contracted with a third party administrator to administer the plan and renews annually each year. The plan provides a debit card to each eligible employee providing \$4,200 each year to pay for qualified medical expenses. If an employee is no longer employed by the county clerk's office or decides to no longer participate in the health reimbursement account, the funds revert back to the county clerk's office. The balance of the plan as of December 31, 2017, was \$17,974. The unused amounts roll forward to each employee's account until they no longer participate in the plan.

Note 6. State Grant

The Warren County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$19,890. During calendar year 2017, the account earned interest of \$46. Funds totaling \$1,482 were expended during the year. The unexpended grant balance was \$18,454 as of December 31, 2017.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O Buchanon, Warren County Judge/Executive
The Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 Receipts and Disbursements - Regulatory Basis of the County Clerk of Warren County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2018. The Warren County Clerk's financial statements are prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Warren County Clerk's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Warren County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Warren 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 statements 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statements are 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,

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

Mike Harmon
Auditor of Public Accounts

November 8, 2018