

**REPORT OF THE AUDIT OF THE
CHRISTIAN COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CHRISTIAN COUNTY CLERK

**For The Year Ended
December 31, 2014**

The Auditor of Public Accounts has completed the Christian County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statements present fairly in all material respects, the receipts and disbursements of the County Clerk and the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a 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 government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Christian County Clerk had total receipts of \$12,756,700, which was a \$329,954 decrease from the prior year. Except for reimbursed expenses and fiscal court contributions in the amount of \$75,389, the Clerk paid 25% of receipts to the Christian County Fiscal Court in the amount of \$323,316. This was a decrease of \$22,275 from the prior year. In addition, 75% fund operating disbursements increased by \$392,320.

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Tribble, Christian County Judge/Executive
Honorable Michael Kem, Christian County Clerk
Members of the Christian 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 Christian 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, 2014, 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 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 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 opinions.



The Honorable Steve Tribble, Christian County Judge/Executive
Honorable Michael Kem, Christian County Clerk
Members of the Christian 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 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 Opinion 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 County Clerk, as of December 31, 2014, 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 Clerk and the receipts, disbursements, and fund balances of the Clerk’s operating fund and county fund with the State Treasurer for the year ended December 31, 2014, 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 July 06, 2015 on our consideration of the Christian 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 Christian County Clerk’s 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,



Adam H. Edelen
Auditor of Public Accounts

July 06, 2015

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Grants	\$	14,980	
State Fees For Services			22,601
Fiscal Court			11,989
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,882,232	
Usage Tax			5,360,449
Tangible Personal Property Tax			4,167,598
Lien Fees			22,996
Other-			
Marriage Licenses			31,240
Occupational Licenses			4,505
Beer and Liquor Licenses			16,900
Deed Transfer Tax			145,994
Delinquent Tax		<u>581,520</u>	12,213,434
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts			29,428
Real Estate Mortgages			82,665
Chattel Mortgages and Financing Statements			182,856
Powers of Attorney			4,085
Affordable Housing Trust			55,032
All Other Recordings			64,055
Charges for Other Services-			
Candidate Filing Fees			3,220
Copywork			7,307
Online Subscription Fees			26,219
Website Service Fees			14,580
Passports			19,100
Vehicle Inspections		<u>140</u>	488,687
Other:			
Miscellaneous			3,999
Interest Earned			<u>1,010</u>
Total Receipts			12,756,700

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

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	1,366,257	
Usage Tax		5,198,693	
Tangible Personal Property Tax		1,437,625	
Licenses, Taxes, and Fees-			
Delinquent Tax		64,300	
Legal Process Tax		60,802	
Affordable Housing Trust		55,032	\$ 8,182,709
		<u> </u>	

Payments to Fiscal Court:

Tangible Personal Property Tax		343,878	
Delinquent Tax		93,278	
Deed Transfer Tax		138,694	
Occupational Licenses		3,520	
Beer and Liquor Licenses		16,514	595,884
		<u> </u>	

Payments to Other Districts:

Tangible Personal Property Tax		2,219,291	
Delinquent Tax		242,291	2,461,582
		<u> </u>	

Payments to Sheriff 48,996

Payments to County Attorney 79,227

Other Disbursements:

Libraries and Archive Grant		14,980	
Miscellaneous		2,901	
Vehicle Inspections		120	
Delinquent Tax Refunds		1,407	
Bank Service Charges		87	19,495
		<u> </u>	

Total Disbursements \$ 11,387,893

Net Receipts 1,368,807

Payments to State Treasurer:

75% Operating Fund *		1,045,336	
25% County Fund		323,316	1,368,652
		<u> </u>	

Balance Due at Completion of Audit \$ 155

* Includes reimbursed expenses in the amount of \$75,389 for the audit period.
See Note 1 of Notes to Financial Statements.

CHRISTIAN COUNTY
MICHAEL KEM, 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, 2014

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 01, 2014	\$ 324,544	\$	\$ 324,544
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	1,045,336		1,045,336
Fees Paid to State - County Funds (25%)		323,316	323,316
Total Funds Available	1,369,880	323,316	1,693,196
<u>Disbursements</u>			
Christian County Fiscal Court	394,553	323,316	717,869
Personnel Services-			
Official's Statutory Maximum	105,596		105,596
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	3,910		3,910
Deputies' Salaries	418,468		418,468
Other Payroll	150		150
Employee Benefits-			
Employer's Share Social Security	36,779		36,779
Employer's Share Retirement	84,722		84,722
Employer's Share Health Insurance	149,104		149,104
Workers' Compensation	2,582		2,582
Contracted Services-			
Maintenance Agreements	39,625		39,625
Printing and Binding	10,763		10,763
Other Contracted Services	11,981		11,981
Supplies and Materials-			
Office Supplies	23,197		23,197
Phone/Internet	6,084		6,084
Land Records Supplies	11,493		11,493

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

CHRISTIAN COUNTY
MICHAEL KEM, 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, 2014
(Continued)

	75%	25%	
	Operating	County	Totals
	Fund	Fund	
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 7,188	\$	\$ 7,188
Dues	179		179
Insurance - Property	2,055		2,055
Postage	11,155		11,155
Capital Outlay-			
Furniture & Fixtures	31,580		31,580
Office Equipment	15,116		15,116
	<u>1,369,880</u>	<u>323,316</u>	<u>1,693,196</u>
Total Disbursements			
Fund Balance - December 31, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is 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.

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 2014 services
- Reimbursements for 2014 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 2014

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as receipts in the 75 percent fund.

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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).

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 18.89 percent for the first six months and 17.67 percent for the last six months.

The County Clerk's contribution for calendar year 2012 was \$90,126, calendar year 2013 was \$91,919, and calendar year 2014 was \$84,722.

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:

CHRISTIAN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System (Continued)

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.

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 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 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, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 4. Local Records Grant

The County Clerk received a local records shelving grant from the Kentucky Department for Libraries and Archives in the amount of \$14,980. Funds totaling \$14,980 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2014.

Note 5. Lease

The Office of the County Clerk was committed to a lease agreement with COTT for a records management system. The agreement requires a monthly payment of \$2,240 for 48 months which was completed on December 31, 2014.

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Tribble, Christian County Judge/Executive
The Honorable Michael Kem, Christian County Clerk
Members of the Christian 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 financial statements - regulatory basis of the Christian County Clerk for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated July 06, 2015. The County Clerk's financial statements are 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 statements, we considered the Christian County Clerk's internal control over financial (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Christian County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Christian 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 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
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Christian 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,



Adam H. Edelen
Auditor of Public Accounts

July 06, 2015

