

**GEORGETOWN-SCOTT COUNTY  
REVENUE COMMISSION, INC.**

**MANAGEMENT COMMUNICATIONS**

June 30, 2006

# MILLER, MAYER, SULLIVAN & STEVENS LLP

CERTIFIED PUBLIC ACCOUNTANTS  
"INNOVATORS OF SOLUTION TECHNOLOGY"™

August 21, 2006

Board of Commissioners  
Georgetown-Scott County Revenue Commission, Inc.

In planning and performing our audit of the financial statements of Georgetown-Scott County Revenue Commission, Inc. (Commission) for the year ended June 30, 2006, we considered the internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. A separate report dated August 21, 2006 contains our report on reporting conditions pertaining to the Commission's internal control. This letter does not affect our report dated August 21, 2006 on the financial statements of the Commission.

1. In order to establish or strengthen internal control, we suggest that management of the Commission establish written policies and procedures pertaining to payroll, personnel, budgeting, maintenance of capital asset records, treasury functions, and maintenance of the general ledger accounting system.
2. Bonding of employees in the amount of \$200,000 has been obtained by the Commission. Since the Commission's employees can handle funds far in excess of this amount at any given time, we suggest that this amount be increased to cover any amount of funds that employees of the Commission handle at one time.
3. The Commission has made great strides during the year to implement its new software to track a taxpayer's account. Implementation of the software has enabled the Commission to enforce the ordinances and regulations concerning the collection of occupational and net profits license fees. During the year, the Commission identified several companies, which had not been properly withholding School Board taxes on its employees. One company had understated their withholdings by \$41,000 during 2005. This has since been remitted to the Commission and paid to the School Board. During our discussion of this matter with the Executive Director of the Commission, it was noted that the Commission did not go back to previous years to review this matter, and it was likely that this company had been under reporting its withholdings for several years. The School Board's resolution authorizing this tax is not clear as to how many years back they can audit a taxpayer. We suggest that either the Board of Commissioners establish a written policy concerning the length of time they can audit a taxpayer or that the School Board's resolution authorizing the occupational tax be amended to clarify this issue. Legal counsel may be needed in making a determination as to how to resolve this issue.
4. One taxpayer file was reviewed in which a request had been made to the taxpayer in February to respond to an issue that the Commission had brought to their attention. As of the audit date, the company had not responded to the Commission's letter, and the Commission had made no further attempts to resolve this matter. We suggest that the Commission maintain some type of file that will show unresolved correspondence so that the Commission can follow up to ensure that the matter was properly resolved.
5. In our review of one taxpayer file, we found a request filed for a refund in November 2005, and as of the audit date, the refund had not been paid. It appeared that the Commission was not aware that the refund had been requested. We suggest that when a refund request is received, it be placed on a master

list. The list would reflect what employee has been assigned to review the request, when the refund is made, and the check number of the refund.

This report is intended solely for the information and use of the City of Georgetown, Kentucky, Scott County Fiscal Court, Scott County Board of Education, Board of Commission, and management of Georgetown-Scott County Revenue Commission, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

*Miller, Mayer, Sullivan, & Stevens, LLP*

Miller, Mayer, Sullivan, & Stevens, LLP  
Lexington, Kentucky

**MILLER, MAYER, SULLIVAN & STEVENS LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
"INNOVATORS OF SOLUTION TECHNOLOGY"<sup>SM</sup>

August 21, 2006

Board of Commissioners  
Georgetown-Scott County Revenue Commission, Inc.

We have audited the basic financial statement of Georgetown-Scott County Revenue Commission, Inc. (Commission) for the year ended June 30, 2006 and have issued our report thereon dated August 21, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards**

As stated in our engagement letter; our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Georgetown-Scott County Revenue Commission, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no transactions entered into by the Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic

financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. Management's estimate of depreciation expense and accumulated depreciation, which is based on the estimated useful life of each asset. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.
2. Management's estimate of the amounts receivable for occupational license fee and net profits license fee are based on subsequent collections and management's review of the returns filed by the largest taxpayers within the jurisdiction. We evaluated the key factors in relation to the basic financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Georgetown-Scott County Revenue Commission, Inc.'s financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Georgetown-Scott County Revenue Commission, Inc., either individually or in the aggregate, indicate matters that could have a significant effect on Georgetown-Scott County Revenue Commission, Inc.'s financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's basic financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as Georgetown-Scott County Revenue Commission, Inc.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of the City of Georgetown, Kentucky, Scott County Fiscal Court, Scott County Board of Education, Board of Commission, and management of Georgetown-Scott County Revenue Commission, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

*Miller, Mayer, Sullivan, & Stevens, LLP*

Miller, Mayer, Sullivan, & Stevens, LLP  
Lexington, Kentucky

**GEORGETOWN-SCOTT COUNTY REVENUE  
COMMISSION, INC.**

Report on Audited Financial Statements  
For the Year Ended June 30, 2006

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# MILLER, MAYER, SULLIVAN & STEVENS LLP

CERTIFIED PUBLIC ACCOUNTANTS  
"INNOVATORS OF SOLUTION TECHNOLOGY"™

## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Georgetown-Scott County Revenue Commission, Inc.

We have audited the accompanying financial statements for the governmental activities of Georgetown-Scott County Revenue Commission, Inc. (Commission) as of June 30, 2006 and for the year ended June 30, 2006, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Georgetown-Scott County Revenue Commission, Inc.'s management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Georgetown-Scott County Revenue Commission, Inc. as of June 30, 2006 and the changes in net assets and governmental fund balance for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006, on our consideration of Georgetown-Scott County Revenue Commission, Inc.'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 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 3 and 11 through 12 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Georgetown-Scott County Revenue Commission, Inc.'s basic financial statements. The other supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Miller, Mayer, Sullivan, & Stevens, LLP*

Lexington, Kentucky  
August 21, 2006

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**Management's Discussion and Analysis**

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The following comments are provided as an overview of the financial activities for the year ended June 30, 2006 and to assist the reader in assessment of the financial condition of Georgetown-Scott County Revenue Commission, Inc. (GSCRC) as of June 30, 2006. Please assess these comments in conjunction with the following financial statements and the Independent Auditors' Report.

**Introduction**

The Governmental Fund Balance Sheet/Statement of Net Assets report the financial information of the GSCRC in two different ways. The column titled Governmental Fund represents the activities of the GSCRC accounted for on a modified accrual basis and does not consider the capital assets or prepaid expenses of the GSCRC. The column titled Statement of Net Assets represents the Net Assets of the GSCRC, including its capital assets. The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities reports the revenues and expenditures of the GSCRC. The column titled General Fund reports the receipts and disbursements, including the purchase of capital assets and excluding depreciation of capital assets and the column titled Statement of Activities reports the receipts and disbursements of the GSCRC, including depreciation and amortization and excluding capital assets. The adjustments column on both statements provides for reconciliation between the two methods of reporting the activities.

**Assets**

Total assets of GSCRC at June 30, 2006 is \$6,686,507, which is an increase of \$4,085,489 over the prior year. The majority of this increase is due to one manufacturing company paying their estimated net profits license fee in July, whereas in the previous year this was paid in June. Capital assets total \$100,432 and \$63,271 for the years ended June 30, 2006 and 2005, respectively. This increase of \$37,161 is related to GSCRC moving to new offices and the purchase of additional furniture and electronic equipment.

**Liabilities**

Total liabilities of GSCRC at June 30, 2006 is \$6,539,164, all of which are payable from current assets. This is an increase of \$3,980,396 over the prior year due mainly to a manufacturing company paying their estimated net profits license fee in July, whereas in the previous year this was paid in June.

**Net Assets**

Net assets of GSCRC is \$147,343 and \$42,250 as of June 30, 2006 and 2005, respectively. Of this amount, \$100,432 and \$63,721 is invested in capital assets. The remaining balance of \$46,911 and \$(21,021) is unrestricted.

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**Management's Discussion and Analysis**

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**Revenues**

The activities of the GSCRC are financed by contributions of the City of Georgetown (40%), the Scott County Fiscal Court (40%), and the Scott County Board of Education (20%), collectively referred to as taxing authorities. These contributions were based upon each entity's share of the budgeted expenses of the GSCRC. These percentages were based upon the tax rate imposed by the jurisdictions and are set forth in an Interlocal Cooperative Agreement signed November 11, 2003. Total revenues realized by the GSCRC for the fiscal years ended June 30, 2006 and 2005 were \$484,320 and \$371,948, respectively. Total contributions from the City of Georgetown were \$193,735, from the Scott County Fiscal Court were \$193,735, and from the Scott County Board of Education were \$96,850.

**Expenses**

Expenses for GSCRC for the year ended June 30, 2006 and 2005 were \$379,227 and \$346,400, respectively. Of these amounts, 100% were spent on General Governmental activities.

**Year End Financial Position**

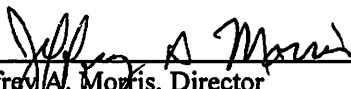
The increase in net assets for the years ended June 30, 2006 and 2005 were \$105,093 and \$25,548. The 2006 increase was the result of GSCRC expending less than budgeted amounts and the funding of capital assets totaling \$46,160.

**Budget**

A budget for the period July 1, 2005 through June 30, 2006 was adopted by the Commission during its regular meeting on April 20, 2005. The total budgeted revenues were \$428,638, and the total budgeted expenditures were \$428,638. This budget was amended and adopted by the Commission during its regular meeting January 20, 2006. The total budgeted revenues were \$484,438, and the total budgeted expenditures were \$484,438. For the fiscal year ending June 30, 2006, the actual revenues were \$484,320, and the actual expenditures were \$417,858. This resulted in a favorable budget variance of \$66,462.

**Capital Assets**

During the year, GSCRC moved to a new office. Leasehold improvements totaled \$65,189 of which \$20,425 of the cost was incurred in 2006. In addition, furniture and electronic equipment costing \$25,735 was purchased. All of these assets were purchased from contributions of the taxing authorities.

  
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Jeffrey A. Morris, Director

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash	\$ 160,809	\$	\$ 160,809
Due from taxpayers:			
Occupational license fees	2,436,901		2,436,901
Net profits license fees	3,954,738		3,954,738
Penalties and interest	25,278		25,278
Regulated fees	175		175
Prepaid assets		8,174	8,174
Capital assets, net		100,432	100,432
 Total assets	 <u>\$ 6,577,901</u>	 <u>\$ 108,606</u>	 <u>\$ 6,686,507</u>
<b>Liabilities</b>			
Accounts payable, trade	\$ 3,255	\$	\$ 3,254
Accounts payable, intergovernmental	72,336		72,336
Amounts due to:			
City of Georgetown	2,623,262		2,623,262
Scott County Fiscal Court	2,789,673		2,789,673
Scott County Board of Education	1,050,639		1,050,639
 Total liabilities	 <u>\$ 6,539,165</u>	 <u>\$</u>	 <u>\$ 6,539,164</u>
<b>Fund Balance/Net Assets</b>			
Invested in capital assets, net of related debt		100,432	100,432
Unrestricted	38,737	8,174	46,911
 Total fund balance/net assets	 <u>\$ 38,737</u>	 <u>\$ 108,606</u>	 <u>\$ 147,343</u>

Amounts reported in the Governmental Fund Balance sheet differ with the reported amounts in the Statement of Net Assets as follows:

Capital assets, net of depreciation totaling \$13,140, used in governmental activities are not financial resources and therefore are not reported in the Governmental Fund balance sheet	\$ 100,432
Prepaid expenses used in governmental activities are not financial resources and therefore are not reported in the Governmental Fund balance sheet	8,174
	<u>\$ 108,606</u>

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

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE/STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2006**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenses:</b>			
Contract labor	\$ 285,020	\$	\$ 285,020
Contractual services	46,398	(1,059)	45,339
Materials and supplies	33,274	(411)	32,863
Other	7,006		7,006
Depreciation		8,999	8,999
Capital	46,160	(46,160)	
Total expenses	<u>417,858</u>	<u>(38,631)</u>	<u>379,227</u>
<b>Revenues:</b>			
Contributions:			
City of Georgetown	193,735		193,735
Scott County Fiscal Court	193,735		193,735
Scott County Board of Education	96,850		96,850
Total revenue	<u>484,320</u>		<u>484,320</u>
Net revenues in excess (deficit) of expenses	66,462	38,631	105,093
Fund balance/net assets, July 1, 2005	<u>(27,725)</u>	69,975	<u>42,250</u>
Fund balance/net assets, June 30, 2006	<u>38,737</u>	<u>\$ 108,606</u>	<u>\$ 147,343</u>

Amounts reported for the Governmental Fund financial statement differ with the Statement of Activities as follows:

The Governmental Fund financial statement reports capital outlays as expenditures while the Statement of Activities reports depreciation of these assets over the life of the assets:

Depreciation expense	\$ (8,999)
Capital expenditures	46,160

The Governmental Fund financial statement reports prepaid expenditures as current year expenses while the Statement of Activities does not include prepaid assets as expenses

<u>1,470</u>
<u>\$ 38,631</u>

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

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**1. Accounting Policies**

The Georgetown-Scott County Revenue Commission, Inc. (Commission) was created in 2004 by a joint agreement between the City of Georgetown, Kentucky (City), Scott County Fiscal Court (County), and Scott County Board of Education (School Board) for the purpose of interpreting the license tax provisions of the City, County, and School Board as necessary, and to provide for the collection of license tax revenues.

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

**Basis of Presentation**

**Government Wide Financial Statements.** The statement of net assets and statement of activities display information about the Commission as a whole and include the operating fund of the Commission. All operating activities of the Commission are reported as a governmental activity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

**Budgetary Control and Encumbrances**

**Budget Policy.** The Commission prepares and approves a budget annually for operating purposes. Budget amendments are made as needed.

**Management Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**Measurement Focus.** In the government-wide Statement of Net Assets and Statement of Activities, activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, and financial position. All assets and liabilities (whether current or non-current) associated with their activities are reported. Fund equity is classified as net assets.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used. Only current financial assets and liabilities are generally included on their balance sheet. Their operating statement presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**Basis of Accounting.** In the government-wide Statement of Net Assets and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

**3. Assets, Liabilities, and Equity**

**Cash and Cash Equivalents.** Cash and cash equivalents include cash accounts on deposit with the Bank.

**Accounts Receivable.** In the government-wide statements, receivables earned consist of revenues earned at year end and not yet received. In the fund financial statements, receivables consist of revenues earned, which were collected within 60 days of year end. In addition, receivables include taxes due from taxpayers as of June 30, 2006, which are not collected until after June 30, 2006.

The direct write-off method is used for uncollectible accounts. This method is not in accordance with generally accepted accounting principles, but the departure does not have a material effect on the financial statements.

**Capital Assets.** The accounting treatment of property, plant and equipment (capital assets) is as follows:

***Statement of Net Assets.*** In the statement of net assets, capital assets are valued at historical cost, except for donated assets, which are recorded at their estimated fair value at the date of donation. Assets with an estimated life of greater than one year are capitalized.

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation as follows:

<u>Asset Class</u>	<u>Years</u>
Leasehold improvements	20
Equipment	5
Vehicles	3

***Fund Financial Statements.*** In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Equity Classifications**

***Statement of Net Assets.*** Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2006, there is no related debt.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by:
  - i. External groups, such as creditors, grantors, contributors, or laws or regulations of other governments, or
  - ii. Law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

***Fund Financial Statements.*** Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

**Revenues**

The Commission's revenues consist primarily of operating grants from the City, County, and School Board. The three entities have agreed to reimburse the Commission monthly based on the approved budget of the Commission. The reimbursement rate is 40% by the City and County and 20% by the School Board.



**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**Expenses/Expenditures.** In the government-wide statements and fund financial statements, expenses are classified by function.

**4. Due from/Due to Tax Authorities**

License fee receivables at June 30, 2006 include amounts due from taxpayers, which are payable to the tax authorities as follows:

	Taxing Authority			Total
	City	County	School Board	
Due from Taxpayers:				
Net profits license fees	\$ 1,556,791	\$ 1,607,011	\$ 790,936	\$ 3,954,738
Occupational license fees	1,037,515	1,154,958	244,428	2,436,901
Penalties and interest	13,726	5,101	6,451	25,278
Regulated fees	175			175
Total due from taxpayers	2,608,207	2,767,070	1,041,815	6,417,092
License fee collections prior to June 30, 2006, not remitted	15,055	22,603	8,824	46,482
Total amounts due to tax authorities, June 30, 2006	<u>\$ 2,623,262</u>	<u>\$ 2,789,673</u>	<u>\$ 1,050,639</u>	<u>\$ 6,463,574</u>

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Leasehold improvements	\$ 44,764	\$ 20,425	\$	\$ 65,189
Furniture and equipment	20,648	25,735		46,383
Vehicles	2,000			2,000
	67,412	46,160		113,572
Accumulated depreciation	(4,141)	(8,999)		(13,140)
Capital assets, net	<u>\$ 63,271</u>	<u>\$ 37,161</u>	<u>\$</u>	<u>\$ 100,432</u>

**6. Concentrations of Credit Risk**

Financial instruments which potentially subject the Commission to concentrations of credit risk consist of cash held in one financial institution. The Commission places its cash with high credit quality financial institutions that are FDIC insured. At June 30, 2006, the Commission's funds on deposit with the Bank were covered by FDIC insurance up to \$100,000. Funds in excess of the FDIC coverage were collateralized by securities held by the pledging financial institution.

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**7. Significant Taxpayer**

A comparison of collections from one company to the total receipts for each taxing authority follows:

	<u>Amounts Provided</u>	<u>Total Receipts</u>	<u>% of Total Receipts</u>
<b>Occupational License Fees:</b>			
City	\$ 5,943,495	\$ 9,720,680	61%
County	5,932,458	10,936,918	54%
School Board	873,516	2,057,175	42%
 <b>Net Profits License Fees:</b>			
City	\$ 6,074,200	\$ 6,412,806	95%
County	6,082,160	6,614,876	92%
School Board	3,041,080	3,330,516	91%

**REQUIRED SUPPLEMENTAL DATA**

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENSES,**  
**AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2006**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Fund balance, beginning of year	\$ (27,725)	\$ (27,725)	\$ (27,725)	\$
Expenses:				
Contract labor	322,468	322,468	285,020	37,448
Contractual services	58,400	63,000	46,398	16,602
Materials and supplies	42,620	42,620	33,274	9,346
Other	3,650	3,650	7,006	(3,356)
Capital	1,500	52,700	46,160	6,540
Total expenses	428,638	484,438	417,858	66,580
Revenues:				
City of Georgetown	171,455	193,775	193,735	(40)
Scott County Fiscal Court	171,455	193,775	193,735	(40)
Scott County Board of Education	85,728	96,888	96,850	(38)
Total revenues	428,638	484,438	484,320	(118)
Net increase (decrease) in fund balance			66,462	66,462
Fund balance, end of year	\$ (27,725)	\$ (27,725)	\$ 38,737	\$ 66,462

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**ON BUDGETARY ACCOUNTING AND CONTROL**  
**For the Year Ended June 30, 2006**

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**BUDGETARY ACCOUNTING AND CONTROL**

**Budgetary Accounting**

The annual operating budget is prepared and presented on the modified accrual basis of accounting by the Board of Commissioners.

The Commission does not use an encumbrance accounting system; thus, the budgetary and GAAP presentation of the Statement of Governmental Revenues, Expenses and Changes in Fund Balance-Budget and Actual are the same.

## **SUPPLEMENTAL DATA**

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**SCHEDULE OF TAX RECEIPTS AND REMITTANCES TO TAX AUTHORITIES**  
**For the Year Ended, June 30, 2006**

	<u>City of Georgetown</u>	<u>Scott County Fiscal Court</u>	<u>Scott County Board of Education</u>	<u>Total</u>
Prior year unpaid amounts	\$ 4,750.46	\$ 6,101.59	\$ 3,198.60	\$ 14,050.65
<b>Receipts:</b>				
Occupational license fees	9,720,680.17	10,936,918.07	2,057,175.23	22,714,773.47
Net profits license fees	6,412,806.83	6,614,877.01	3,330,516.38	16,358,200.22
Penalty & interest	24,538.47	29,983.62	21,461.62	75,983.71
Annual business fees	425.00			425.00
Regulated business fees	1,750.00			1,750.00
Interest income	1,486.55	1,486.56	743.25	3,716.36
	<u>16,161,687.02</u>	<u>17,583,265.26</u>	<u>5,409,896.48</u>	<u>39,154,848.76</u>
<b>Disbursements:</b>				
Collection fees	193,735.00	193,735.00	96,850.00	484,320.00
Refunds:				
Occupational license fees	34,011.83	25,341.99	12,168.58	71,522.40
Net profits license fees	65,166.36	4,233.66	2,018.30	71,418.32
Paid to taxing authorities:				
July	1,196,951.69	1,341,597.07	558,722.12	3,097,270.88
August	1,361,044.56	1,462,049.04	253,330.97	3,076,424.57
September	2,164,198.59	2,248,475.31	913,373.35	5,326,047.25
October	288,226.14	450,156.58	95,415.86	833,798.58
November	1,365,018.84	1,468,988.02	271,866.04	3,105,872.90
December	2,573,086.31	2,693,731.01	1,022,119.85	6,288,937.17
January	285,731.61	394,650.10	77,537.27	757,918.98
February	1,325,690.33	1,465,826.65	267,609.91	3,059,126.89
March	2,093,245.11	2,206,601.51	844,285.84	5,144,132.46
April	647,796.32	838,917.35	344,161.52	1,830,875.19
May	1,555,874.04	1,699,272.62	337,334.44	3,592,481.10
June	1,001,604.98	1,073,188.68	307,477.27	2,382,270.93
	<u>16,151,381.71</u>	<u>17,566,764.59</u>	<u>5,404,271.32</u>	<u>39,122,417.62</u>
Balance due to tax authorities	\$ 15,055.77	\$ 22,602.26	\$ 8,823.76	\$ 46,481.79

**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**SCHEDULE OF TAX REVENUES PAYABLE TO TAX AUTHORITIES**  
**June 30, 2006**

	<u>City of Georgetown</u>	<u>Scott County Fiscal Court</u>	<u>Scott County Board of Education</u>	<u>Total</u>
Balance due tax authorities on collections prior to June 30, 2006	\$ 15,055.77	\$ 22,602.26	\$ 8,823.76	\$ 46,481.79
Taxes owed at June 30, 2006, but collected subsequent to June 30, 2006:				
Occupational license	1,037,690.62	1,154,957.56	244,427.90	2,437,076.08
Net profits license	1,556,790.69	1,607,010.90	790,936.34	3,954,737.93
Penalties and interest	<u>13,725.03</u>	<u>5,101.86</u>	<u>6,451.18</u>	<u>25,278.07</u>
Total tax revenues payable, June 30, 2006	<u>\$ 2,623,262.11</u>	<u>\$ 2,789,672.58</u>	<u>\$ 1,050,639.18</u>	<u>\$ 6,463,573.87</u>



**GEORGETOWN-SCOTT COUNTY REVENUE COMMISSION, INC.**  
**SCHEDULE OF UNEARNED REVENUE REMITTED TO TAX AUTHORITIES**  
**JUNE 30, 2006**

	<u>City of Georgetown</u>	<u>Scott County Fiscal Court</u>	<u>Scott County Board of Education</u>	<u>Total</u>
Net profits license fee overpayments which have been paid to taxing authorities	<u>\$ 116,199</u>	<u>\$ 19,664</u>	<u>\$ 11,435</u>	<u>\$ 147,298</u>

# MILLER, MAYER, SULLIVAN & STEVENS LLP

CERTIFIED PUBLIC ACCOUNTANTS  
"INNOVATORS OF SOLUTION TECHNOLOGY"™

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

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The Board of Commissioners  
Georgetown-Scott County Revenue Commission, Inc.

We have audited the financial statements of the governmental activities of Georgetown-Scott County Revenue Commission, Inc., as of June 30, 2006 and for the year ended June 30, 2006, which comprise Georgetown-Scott County Revenue Commission, Inc.'s basic financial statements and have issued our report thereon dated August 21, 2006. We conducted our audit 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.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Georgetown-Scott County Revenue Commission, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Georgetown-Scott County Revenue Commission, Inc. in a separate letter dated August 21, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Georgetown-Scott County Revenue Commission, Inc.'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*.

This report is intended solely for the information and use of the City of Georgetown, Kentucky; Scott County Fiscal Court; Scott County Board of Education, the Board of Commissioners, management, and others within the organization, and is not intended to be and should not used by anyone other than these specified parties.

*Miller, Mayer, Sullivan, & Stevens, LLP*

Miller, Mayer, Sullivan, & Stevens, LLP

August 21, 2006