REPORT OF THE AUDIT OF THE ROWAN COUNTY CLERK

For The Year Ended December 31, 2006

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The Honorable Jim Nickell, Rowan County Judge/Executive
Honorable Jean Bailey, Rowan County Clerk
Members of the Rowan County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Rowan County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting as described in note 1.

The Honorable Jim Nickell, Rowan County Judge/Executive
Honorable Jean Bailey, Rowan County Clerk
Members of the Rowan County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, on our consideration of the 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 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.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Rowan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan-Franklin, LLC

Morgan-Franklin, LLC

May 31, 2007

ROWAN COUNTY
JEAN BAILEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues		
State Grants - Library And Archives		$ 2,558
State Fees For Services		9,206
Fiscal Court		28,579
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 511,993	
Usage Tax	1,707,814	
Tangible Personal Property Tax	1,254,267	
Miscellaneous Income	5,401	
Other-		
Fish and Game	2,788	
Marriage	7,107	
Miscellaneous Licenses	250	
Deed Transfer Tax	45,879	
Delinquent Tax	445,896	3,981,395
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	12,631	
Real Estate Mortgages	30,382	
Chattel Mortgages and Financing Statements	57,727	
Powers of Attorney	1,740	
All Other Recordings	28,978	
Charges for Other Services-		
Candidate Filing Fees	1,830	
Copywork	5,082	138,370
Other:		
Postage	889	
Miscellaneous Receipts	2,764	
Refunds/Overpayments	19,625	23,278
Interest Earned		834
Total Revenues		$ 4,184,220

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

ROWAN COUNTY
JEAN BAILEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 392,857	
Usage Tax	1,653,676	
Tangible Personal Property Tax	542,713	
Licenses, Taxes, and Fees-		
Fish and Game	2,700	
Delinquent Tax	68,761	
Legal Process Tax	16,467	
Miscellaneous	9,864	
		$ 2,687,038
Payments to Fiscal Court:		
Tangible Personal Property Tax	77,405	
Delinquent Tax	33,955	
Deed Transfer Tax	43,585	
Miscellaneous	150	155,095
Payments to Other Districts:		
Tangible Personal Property Tax	585,624	
Delinquent Tax	234,571	820,195
Payments to Sheriff		2,894
Payments to County Attorney		65,951
Operating Expenditures and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	194,045	
Employee Benefits-		
Employer's Share Social Security	19,019	
Contracted Services-		
Scanning And Indexing Records	21,150	

ROWAN COUNTY
JEAN BAILEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures (Continued)

Computer Hardware Maintenance Agreement	$ 18,776	
Materials and Supplies-		
Office Supplies	17,828	
Other Charges-		
Library And Archives Grant Expenditures	2,558	
Dues	1,918	
Refunds	20,427	
Postage	4,027	
Bank Charges	4,173	
Miscellaneous	537	$ 304,458
Debt Service		
Lease Purchases		37,928
Total Expenditures		4,073,559
Net Revenues		110,661
Less: Statutory Maximum		74,294
Excess Fees		36,367
Less: Expense Allowance		3,600
Excess Fees Due County for 2006		32,767
Payments to Fiscal Court - February 16, 2007		30,000
Balance Due Fiscal Court at Completion of Audit		$ 2,767

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

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

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

C. Cash and Investments

At the direction of the fiscal court, 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).

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006

Note 2. Employee Retirement System

The county officials 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 that 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 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

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.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 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) in accordance with 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 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 for KRS 41.240(4). As of August 31, 2006 and December 31, 2006, the County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of $20,000. Funds totaling $2,558 were expended during the year. The unexpended grant balance was $17,442 as of December 31, 2006.

Note 5. Leases

The Clerk's office was committed to the following lease agreements as of December 31, 2006:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2006
Copier	$ 247	60 months	May 2007	$ 1,699
Copier	334	60 months	May 2007	2,285
Hardware	2,019	60 months	September 2007	17,584

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

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

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rowan County Clerk for the year ended December 31, 2006, and have issued our report thereon dated May 31, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. 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 the Rowan County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rowan County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rowan County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Rowan County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan -Franklin, LLC

May 31, 2007