

COUNTY OF KNOX

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR
ENDED DECEMBER 31, 2005*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2005**

TABLE OF CONTENTS

PAGE(S)

INDEPENDENT AUDITOR'S REPORT

1 - 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

3 - 6

BASIC FINANCIAL STATEMENTS

EXHIBIT

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A Statement of Net Assets

7

B Statement of Activities

8

FUND FINANCIAL STATEMENTS

C Balance Sheet - Governmental Funds

9 - 10

D Combined Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds

11 - 12

E Statement of Fiduciary Net Assets

13

NOTES TO THE FINANCIAL STATEMENTS

14 - 25

EXHIBIT

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
 MANAGEMENT'S DISCUSSION AND ANALYSIS**

F Budgetary Comparison Schedule

26

OTHER SUPPLEMENTARY INFORMATION

EXHIBIT

GENERAL FUND

A-1 Statement of Estimated and Actual Revenues - Budgetary Basis

27

A-2 Statement of Appropriations, Expenditures
 and Encumbrances - Budgetary Basis

28 - 29

A-3 Statement of Changes in Unreserved - Undesignated Fund Balance
 - Budgetary Basis

30

SPECIAL REVENUE FUNDS

B-1 Combining Balance Sheet

31

B-2 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance

32

B-3 Combining Balance Sheet - Grant Funds

33 - 34

B-4 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance - Grant Funds

35 - 36

B-5 Statement of Activity - Reserve Funds

37

CAPITAL PROJECT FUNDS

C-1 Combining Balance Sheet

38

C-2 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance

39

TRUST AND AGENCY FUNDS

D-1 Statement of Changes in Assets and Liabilities - Agency Funds

40

SINGLE AUDIT ACT
INDEPENDENT AUDITOR'S REPORTS AND SCHEDULES

Report On Compliance and On Internal Control Over Financial Reporting Based On An Audit of Financial Statements Performed in Accordance With Government Auditing Standards	41 - 42
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	43 - 44
SCHEDULES	
I Summary Schedule of Prior Audit Findings	45
II Schedule of Findings and Questioned Costs	46 - 47
III Schedule of Expenditures of Federal Awards	48
Notes to Schedule of Expenditures of Federal Awards	49
<i>INDEPENDENT AUDITOR'S COMMUNICATION OF REPORTABLE CONDITIONS AND OTHER MATTERS</i>	50 - 51

INDEPENDENT AUDITOR'S REPORT

September 26, 2006

County Commissioners
County of Knox
Rockland, ME 04841

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of County of Knox, Maine as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County Knox, Maine's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of County of Knox, Maine as of December 31, 2005, and the respective changes in financial position thereof 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 September 26, 2006 on our consideration of the County of Knox, Maine'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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3-6 and 24 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 measurement 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 opinions on the financial statements that collectively comprise County of Knox, Maine's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of County of Knox, Maine. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

County of Knox
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005

Management of County of Knox provides this *Management's Discussion and Analysis* of the County's financial performance for readers of the County's financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended December 31, 2005. We encourage readers to consider this information in conjunction with the financial statements and accompanying notes that follow.

The financial statements herein include all of the activities of County of Knox (the County) using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights:

Net Assets – The assets of the County exceeded its liabilities at fiscal year ending December 31, 2005 by \$15,959,422 (presented as “net assets”). Of this amount, \$2,661,480 was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the County's ongoing obligations to citizens and creditors.

Changes in Net Assets – The County's total net assets increased by \$1,438,836 (a 9.9% increase) for the fiscal year ended December 31, 2005.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2005, the County's governmental funds reported a combined ending fund balance of \$3,259,636 with \$1,412,117 being general undesignated fund balance. This undesignated fund balance represents approximately 23% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations decreased by \$339,835 (17.5%) during the current fiscal year. No new debt obligations were issued. Existing debt obligations were retired according to schedule

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary comparison) and other supplementary information. These components are described below:

Government-wide Financial Statements

The Government-wide financial statements present the financial picture of the County from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the County (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain elimination entries have occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

Fund Financial Statements

The fund financial statements include statements for each of the three categories of activities – governmental, business-type and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are used to account for resources held for the benefit of parties outside the County's government. Fiduciary funds are not reflected in the government-wide financial statements

because the resources of these funds are not available to support the County's own programs. Reconciliation of the fund financial statements to the Government-wide financial statements is provided to explain the differences created by the integrated approach.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

Required Supplementary Information

This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the general fund as presented in the governmental fund financial statements (if necessary).

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

81.3% of the County's net assets reflects its investment in capital assets such as land, buildings, and equipment less any related debt used to acquire those assets that is still outstanding. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Total 2005	Total 2004
Current Assets	3,778,681	4,150,298
Capital Assets	14,580,416	13,334,424
Total Assets	18,359,097	17,484,722
Current Liabilities	1,160,032	1,362,229
Other Liabilities	1,239,643	1,601,907
Total Liabilities	2,399,675	2,964,136
Net Assets:		
Invested in Capital Assets	12,978,509	11,388,412
Restricted	319,433	340,220
Unrestricted	2,661,480	2,791,954
Total Net Assets	15,959,422	14,520,586
Total Liabilities and Net Assets	18,359,097	17,484,722

Changes in Net Assets

Approximately 61.9 percent of the County's total revenue came from assessments, approximately 26.9 percent came from State subsidies and grants, and approximately 11.2 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$434,339 of the total expenses for the fiscal year.

	<u>Total 2005</u>	<u>Total 2004</u>
<i>Revenues:</i>		
District Assessments	5,970,177	5,957,255
Intergovernmental Revenues	2,590,129	2,050,463
Departmental Revenues	709,434	705,614
Other Local Sources	373,937	363,724
<i>Total</i>	<u>9,643,677</u>	<u>9,077,056</u>
<i>Expenses:</i>		
Emergency Management Agency	252,661	202,193
District Attorney	316,449	298,450
County Commissioners	277,647	178,999
County Treasurer	105,608	98,946
Building Maintenance	267,835	246,290
Debt Service	154,621	165,994
County Jail	2,997,177	2,657,116
Registry of Deeds	251,700	306,044
Probate Court	163,739	152,034
Sheriff's Patrol	1,433,112	1,454,070
Dispatch	635,258	586,743
Capital Outlay	181,742	88,199
Airport	980,117	1,691,954
All Other	187,175	170,707
	<u>8,204,841</u>	<u>8,297,739</u>
<i>Changes in Net Assets</i>	<u>1,438,836</u>	<u>779,317</u>

FINANCIAL ANALYSIS OF THE COUNTY'S INDIVIDUAL FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the County's financing requirements. In particular, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the County's governmental funds reported ending fund balances of \$3,259,636 a decrease of \$136,076 in comparison with the prior year. 100% percent of this total amount constitutes undesignated fund balance.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities amounts to \$17,870,523 net of accumulated depreciation of \$3,290,107 leaving a net book value of \$14,580,416.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all citizens, taxpayers, investors and creditors. This financial report seeks to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: County of Knox, 62 Union St., Rockland, ME 04841.

COUNTY OF KNOX
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	1,862,929
Investments	1,346,007
Accounts Receivable	76,495
Due from Other Governments	493,250
Capital Assets:	
Land	1,535,454
Other Capital Assets, Net of Depreciation	<u>13,044,962</u>
Total Assets	<u><u>18,359,097</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	282,891
Retainage Payable	102,703
Deferred Revenue - Other	133,451
Compensated Absences	278,723
Long-term Liabilities:	
Due Within One Year	362,264
Due in More Than One Year	<u>1,239,643</u>
Total Liabilities	<u>2,399,675</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	12,978,509
Restricted Net Assets	319,433
Unrestricted	<u>2,661,480</u>
Total Net Assets	<u>15,959,422</u>
Total Liabilities and Net Assets	<u><u>18,359,097</u></u>

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

**COUNTY OF KNOX
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines, and Charges for Services	Operating Grants	
<u>Functions/Programs</u>				Total
<u>Primary Government</u>				Governmental Activities
<u>Governmental Activities</u>				
Emergency Management Agency	252,661	620	205,199	(46,842)
District Attorney	316,449		61,254	(255,195)
County Commissioners	277,647			(277,647)
County Treasurer	105,608	30,885		(74,723)
Building Maintenance	267,835	55,504		(212,331)
Debt Service	154,621			(154,621)
County Jail	2,997,177	64,777	442,677	(2,489,723)
Registry of Deeds	251,700	477,332		225,632
Probate Court	163,739	60,197		(103,542)
Sheriff's Patrol	1,433,112	119,268		(1,313,844)
Dispatch	635,258	606,533	35,134	6,409
Capital Outlay	181,742			(181,742)
Airport	980,117	205,681	499,157	(275,279)
All Other	187,175		3,494	(183,681)
Total Governmental Activities	8,204,841	1,620,797	1,246,915	(5,337,129)
Total Primary Government	8,204,841	1,620,797	1,246,915	(5,337,129)
<u>General Revenues:</u>				
Assessments				5,371,178
Airport Federal and State Grants for Capital Assets & Infrastructure				1,358,051
Other Local Sources				46,736
Total Revenues, Special Items and Transfers				6,775,965
Changes in Net Assets				1,438,836
Net Assets - Beginning, as restated				14,520,586
Net Assets - Ending				15,959,422

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2005

Exhibit C
Page 1 of 2

<i>Assets</i>	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Airport Taxiway Part 139 Project</i>	<i>Other Governmental Funds</i>	<i>Total</i>
Cash and Equivalents	1,592,257			270,672	1,862,929
Investments		1,310,642		35,365	1,346,007
Accounts Receivable	76,495				76,495
Due from Other Funds	360,569	33,566		279,740	673,875
Due from Other Governments			323,111	170,139	493,250
Total Assets	2,029,321	1,344,208	323,111	755,916	4,452,556
<i>Liabilities and Fund Balance</i>					
<i>Liabilities</i>					
Accounts Payable	213,993			68,898	282,891
Retainage Payable			102,703		102,703
Due to Other Funds	269,760	54,478	220,408	129,229	673,875
Deferred Revenues	133,451				133,451
Total Liabilities	617,204	54,478	323,111	198,127	1,192,920
<i>Fund Balances</i>					
Unreserved	1,412,117			238,356	1,650,473
Unreserved, Reported in Nonmajor Special Revenue Funds		1,289,730		319,433	1,609,163
Total Fund Balances	1,412,117	1,289,730	-	557,789	3,259,636
Total Liabilities and Fund Balances	2,029,321	1,344,208	323,111	755,916	4,452,556

The accompanying notes to the financial statements are and integral part of these statements.

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance	3,259,636
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,290,107	<u>14,580,416</u>
	<u>14,580,416</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Bonds Payable	(1,601,907)
Accrued Compensated Absences	<u>(278,723)</u>
	<u>(1,880,630)</u>
Net Assets of Governmental Activities	<u><u>15,959,422</u></u>

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

COUNTY OF KNOX
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit D
Page 1 of 2

	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Airport Taxiway Part 139 Project</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues					
Assessments	5,371,178			598,999	5,970,177
Intergovernmental Revenues	409,973		1,271,111	909,045	2,590,129
Departmental Revenues	709,434				709,434
Other Local Sources	19,420	85,008		269,509	373,937
Total Revenues	6,510,005	85,008	1,271,111	1,777,553	9,643,677
Expenditures					
Emergency Management Agency	88,083			164,188	252,271
District Attorney	241,836	2,759		66,703	311,298
County Commissioners	208,656	73,928			282,584
County Treasurer	105,400				105,400
Building Maintenance	267,368				267,368
Debt Service	498,726				498,726
County Jail	2,689,366	173,300		175,415	3,038,081
Registry of Deeds	234,909	21,449			256,358
Probate Court	163,766				163,766
Sheriff's Patrol	1,383,395	30,581		1,787	1,415,763
Dispatch		0		650,714	650,714
Airport		1,788	1,303,704	813,626	2,119,118
Capital Outlay		231,131			231,131
All Other	187,175			-	187,175
Total Expenditures	6,068,680	534,936	1,303,704	1,872,433	9,779,753
Excess of Revenues Over (Under) Expenditures	441,325	(449,928)	(32,593)	(94,880)	(136,076)
Other Financing Sources (Uses)					
Transfers from Other Funds	0	415,876	32,593	113,339	561,808
Transfers to Other Funds	(447,130)	(70,298)		(44,380)	(561,808)
Total Other Financing Sources (Uses)	(447,130)	345,578	32,593	68,959	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(5,805)	(104,350)	-	(25,921)	(136,076)
Fund Balance - January 1	1,417,922	1,394,080	-	583,710	3,395,712
Fund Balance - December 31	1,412,117	1,289,730	-	557,789	3,259,636

(Continued)

The notes to financial statements are an integral part of this statement.

COUNTY OF KNOX
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit D
Page 2 of 2

Net change in fund balances - total governmental funds (136,076)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	1,681,698
Capital asset dispositions	(1,367)
Depreciation expense	(434,339)

Bond proceeds proved current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Capital lease obligation principal payments	4,270
General obligation bond principal payments	339,835

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued compensated absences	(15,185)
------------------------------	----------

Change in net assets of governmental activities	<u><u>1,438,836</u></u>
---	-------------------------

The notes to financial statements are an integral part of this statement.

COUNTY OF KNOX
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2005

Exhibit E

	<u>Agency Fund</u>
	<u>Inmate Fund</u>
<i>Assets</i>	
Cash and Equivalents	<u>7,627</u>
<i>Total Assets</i>	<u><u>7,627</u></u>
<i>Liabilities</i>	
Due to Inmates	<u>7,627</u>
<i>Total Liabilities</i>	<u><u>7,627</u></u>

The notes to financial statements are an integral part of this statement.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Knox have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 government's accounting policies are described below.

A. Financial Reporting Entity

The County of Knox operates under an elected Board of Commissioners form of government. The County's major operations include public works, public safety, and general administrative services.

For financial reporting purposes the County includes all organizations, functions and activities in its financial statements for which it exercises oversight responsibility. Oversight responsibility as defined by the Governmental Accounting Standards Board (GASB) includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (continued)

Statement of Program Activities

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for example, through user charges or intergovernmental grants).

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The County and many other governments may revise their original budgets over the course of the year for a variety of reasons. Under GASB No. 34, governments continue to provide budgetary comparison information in their annual reports. GASB Statement No. 34 requires that the County add the original budget to the current comparison of the final budget and actual results.

B. Fund Accounting

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Funds are classified into the following categories: governmental, proprietary, and fiduciary.

Governmental funds are used to account for all or most of the County's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the servicing of general long-term debt (debt service fund). The General Fund is used to account for all activities of the general government not accounted in some other fund.

Proprietary funds are established to account for activities for which a fee is charged to external or internal users for goods or services. Their reporting focuses on the determination of operating income and changes in net assets. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other agencies primarily within the County (internal service funds).

Fiduciary funds are used to account for assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's own programs.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the County. The effect of material interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and various intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and standard revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

The general fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The reserve funds account for all the Town funds designated for a specified purpose.

The airport taxiway part 139 project accounts for the activities of the airport capital project.

D. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues and additions are recorded when earned and expenses and deductions are recorded when a liability is incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the fund liability is incurred. However, debt service expenditures (if any) are recorded only when payment is due.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

*COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Equity

1. Deposits and Investments

Governmental Accounting Standards Statement No. 40 requires the disclosure of interest rate risk, credit risk, and custodial risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests in short term repurchase obligations and short term investments held by a local banking institution. As a means of limiting its exposure credit risk, the District limits its investments to those authorized by Maine State Statutes, which authorize the District to make deposits/investments in insured commercial banks, insured credit unions, and direct debt securities of the United States Government unless such an investment is expressly prohibited by law. For an investment, custodial risk is the risk that in the event of the failure of the counter party the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As a means of limiting its exposure to custodial risk, the District requires that, at the time funds are invested, collateral for repurchase agreements be held in the District's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve.

2. Receivables and Payables

Transactions between funds that result in outstanding balances are reported as due to/from other funds.

Revenues for the most part are recorded when received, except for the following items for which receivables have been recorded:

- a. Certain grants received from other governments require that eligible expenditures be made in order to earn the grant. Revenue for these grants is recorded for the period in which eligible expenditures are made.
- b. Various service charges are recorded as revenue for the period when service was provided. The receivables for such services are shown on the balance sheet.

3. Inventories

Inventories are valued at cost, using the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased, however, material amounts of inventories are reported as assets of their respective funds. Reported inventories in the government funds are equally offset by a fund balance reserve which indicates that the assets are not available for appropriation even though they are a component of reported assets.

4. Capital Assets

Capital assets, which property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**COUNTY OF KNOX
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Equity (Continued.)

4. Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50-100
Infrastructure	30-50
Equipment	5-30

5. Compensated Absences

In the fund financial statements, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave in the government-wide financial statements is recorded as an expense and liability of the fund as the benefits accrue to employees. In accordance with GASB Statement No. 16, no liability is recorded for nonvesting accumulated right to receive sick pay benefits.

6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type financial statements. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

7. Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, restricted net assets are legally restricted by outside parties for a specific purpose.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The County utilizes a formal budgetary accounting system to control revenues accounted for in the general fund. These budgets are established in accordance with the various laws which govern the County's operations. The County Commissioners submit an itemized budget estimate to the budget committee no later than 60 days before the end of the County's fiscal year. The budget committee (made up of elected officials from various Counties) reviews the proposed itemized budget prepared by the County Commissioners, together with any supplementary material prepared by the head of each County department or provided by any independent board or institution or another governmental agency. The budget committee may increase, decrease, or alter the proposed budget. The budget committee then holds a public hearing in the County on the proposed budget before the end of the County's fiscal year and before the final adoption of the budget.

After the public hearing is completed, the budget committee adopts a final budget and transmits that budget to the county commissioners. The county commissioners may not further increase, decrease, alter, and revise the budget as adopted by the budget committee, except by unanimous vote of the county commissioners. If the adopted budget is changed by the county commissioners, the budget committee may reject that change by a 2/3 vote of its membership. Those actions are final and are not subject to further action by either the county commissioners or the budget committee.

The budget as adopted and changed is the final authorization for the assessment of county taxes. The approved final budget is sent to the county commissioners and the county tax authorized is apportioned and collected.

All annual appropriations lapse at the year-end except for capital appropriations, which are encumbered if approved by the County Commissioners.

B. Budget/GAAP Reconciliation

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Exhibit F) reconciles financial data on a budgetary basis for the government's general fund to the data shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Exhibit D). The major difference is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

C. Reserved For Contingency - General Fund

Title 30-A, Section 922, Maine Revised Statutes Annotated of 1964 states that at the end of each fiscal year, there must be transferred from unencumbered county funds an amount sufficient to restore the established county contingent account.

At December 31, the County's contingency account remained at its established balance.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Equivalents

At December 31, the carrying amount of the County's deposits was \$1,870,556 and the bank balance was \$2,007,500. The bank balance is categorized according to risk assumed as follows:

Category 1 - Insured by Federal Depository Insurance.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

Category 3 - Uninsured and uncollateralized.

	<i>Bank Balance</i>	<i>1</i>	<i>Category 2</i>	<i>3</i>
Cash and Equivalents	<u>2,007,500</u>	<u>390,243</u>	<u>1,518,284</u>	<u>98,973</u>

Included in the County's cash equivalents at December 31, 2005, were short-term investments in repurchase agreements issued by a local banking institution. Under these agreements, the County will be repaid principal plus interest on a specified date which is subsequent to year end. The agreement is guaranteed/collateralized with securities held by the banking institution which exceed the amount of the agreement. To the extent that the banking institution may default on its commitment to these obligations, the County is at risk of economic loss. Management considers this exposure minimal. At December 31, 2005, the County held investments in repurchase agreements as follows:

<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Underlying Securities</u>	<u>Market Value</u>
\$ 1,635,000	4.50%	1/1/2006	SEC 4 FNMA	\$ <u>1,594,648</u>

B. Investments

Investments made by the County are summarized below. The investments that are represented by specific identifiable securities are classified as to credit risk into three categories as follows:

Category 1 – Insured or registered, or securities held by the government or its agent in the government's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	<i>Category 3</i>	<i>Fair Value</i>
U.S. Government Obligations	<u>1,346,007</u>	<u>1,346,007</u>

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

C. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
Governmental Activities;				
<i>Capital assets not being depreciated</i>				
Land	1,535,454			1,535,454
 <i>Capital assets being depreciated</i>				
Buildings	5,726,876	23,480		5,750,356
Equipment	1,128,202	609,917	(19,688)	1,718,431
Infrastructure	7,817,981	1,048,301		8,866,282
Total capital assets being depreciated	14,673,059	1,681,698	(19,688)	16,335,069
 <i>Less accumulated depreciation for</i>				
Buildings	1,691,508	113,767		1,805,275
Equipment	653,528	143,245	(18,321)	778,452
Infrastructure	529,053	177,327		706,380
Total accumulated depreciation	2,874,089	434,339	(18,321)	3,290,107
Net capital assets being depreciated	11,798,970	1,247,359	(1,367)	13,044,962
Governmental Activities Capital Assets, net	13,334,424	1,247,359	(1,367)	14,580,416

Depreciation expense was charged to functions/programs of the primary government as follows;

Governmental Activities

District Attorney	518
County Commissioners	4,364
County Treasurer	106
County Jail	129,224
Registry of Deeds	1,379
Sheriff's Patrol	81,040
Dispatch	1,235
Airport	216,473
	<hr/>
Total Depreciation Expense - Governmental Activities	434,339

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

D. Assessments

The County's property tax assessment is levied and recognized annually on the assessment values for each municipality located in the county. Assessment values are established for each municipality by the state. For the year-ended December 31, 2005, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 5,357,200,000
Unorganized territories	<u>8,650,000</u>
Total assessed valuation	5,365,850,000
Tax rate	<u>0.0010010</u>
Current tax commitment	<u>\$ 5,371,216</u>
Appropriations	6,640,199
Overlay	<u>105,241</u>
	6,745,440
Less:	
Estimated revenues	<u>(1,374,224)</u>
Current tax commitment	<u>\$ 5,371,216</u>

E. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2005, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	360,569	269,760
Special Revenue Funds		
Reserve Funds	33,566	54,478
Airport Fund	61,817	
Grant Funds	86,982	9,359
DARE		123
Dispatch Fund	130,941	
Capital Project Fund	<u> </u>	<u>340,155</u>
Totals	<u>673,875</u>	<u>673,875</u>

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. On the Governmental Fund financial statements, the payables are classified as Due to Other Funds with offsetting receivables on the Governmental Fund financial statements classified as Due from Other Funds. The amount due to the capital project funds represents airport projects appropriations and grant receivables and will be repaid upon receipts and use of the funds for these projects. The remainder of the above balances will be repaid during the next year.

**COUNTY OF KNOX
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2005**

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

F. Long-Term Debt

1. **General Obligation Debt.** The government issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds and notes currently outstanding are as follows:

<i>Purpose</i>	<i>Maturity Date</i>	<i>Interest Rate</i>	<i>Amount</i>
1991 Jail Construction Bond	7/1/2009	6.125-6.75%	<u>1,601,907</u>

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$278,941 are as follows:

<i>Fiscal Year-ending December 31</i>	<i>General Long-Term Debt Account Group</i>
2006	470,212
2007	470,212
2008	470,212
2009	<u>470,212</u>
Total	<u>1,880,848</u>

2. Changes in Long-Term Debt

The following summary of long-term debt transactions of Knox County for the year ended December 31, 2005:

Long-term Debt payable January 1, 2005	1,941,742
Debt Issued	
Debt Retired	<u>(339,835)</u>
Long-term Debt payable December 31, 2005	<u>1,601,907</u>

NOTE 4 - OTHER INFORMATION

A. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any to be immaterial.

There are various claims and suits pending against the County which arise in the normal course of the County's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect in the financial position of the County.

*COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005*

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans

The County has contributed for certain employees, to the Maine State Retirement System (MSRS), a cost-sharing multiple-employer defined benefits pension plan. The County has withdrawn from participation for new employees, but must continue to fund the benefits of current retirees and vested inactive members. The County is required to contribute an annual fee based on an actuarial valuation of the entire State plan. There were no contribution requirements for the County for the years 2003, 2004, and 2005.

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all county employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan is administered by an independent company, and the County remits all compensation deferred to this administrator for investment as requested by the participant employees. All assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries.

The County has adopted a 401 Qualified Plan for which an independent company is the plan administrator.

The County contributes 7% of earnings on behalf of each participant for the plan year. Each participant is required to contribute 3% of earnings for the plan year as a condition of participation.

All full-time, salaried management, public safety, and elected officials are eligible to participate. Normal retirement age shall be 55 (not to exceed age 65). Participants vesting requirements are fulfilled at 5 years of service. The County has contributed \$123,294 and the participants have contributed \$63,426 for the year-ended December 31, 2005.

A participant may direct the investment without restriction among various options available under the trust. Loans are not permitted under the plan.

Effective January 1, 2002, the County implemented a cafeteria benefit plan pursuant to section 125 of the IRS code. Under this plan, eligible employees may direct a contribution, made by the employees, into any combination of the following benefit categories:

1. Health Care Reimbursement Plan;
2. Dependent Care Assistance Account;
3. Premium Expense Account;

Eligible employees may elect to contribute pre-tax dollars to these categories. Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Assistance Account. Total contributions may not be more than \$10,000 each year.

All regular full-time and part-time employees who are eligible to join the County's major medical plan are eligible to participate in this plan. Seasonal employees are not eligible. The plan year adopted by the County begins on January 1 and ends on December 31.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans (Continued)

To obtain reimbursement of expenses incurred within a plan year within the spending accounts, employees must submit claims within 30 days of the end of the plan year or separation from the County, whichever comes first. Funds unclaimed after 30 days of the close of the plan year are then remitted to the County.

C. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage and destruction of assets; errors and omissions; and natural disasters for which the County participated in public entity risk pools.

The County is a member of the Maine Municipal Association - Worker Compensation Fund ("Fund"). The Fund was created to formulate, develop, and administer a program of modified self-funding for the Fund's membership, obtain lower costs for worker's compensation coverage, and develop a comprehensive loss control program. The County pays an annual premium to the Fund for its worker's compensation coverage. The County's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts, for members with claims in excess of \$400,000 with a limit of \$2,000,000.

The County is also a member of the County Commissioners Association Self-Funded Risk Management Pool ("Pool"). As with the Fund above, the Pool was created to obtain lower costs for its members. The County pays an annual premium for its property and liability coverage.

Under the property portion of the Pool, coverage is provided, after the deductible is met, to \$10,000,000. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

D. Litigation

The County is part to various legal proceedings which normally occur in governmental operations. According to legal council, the legal proceedings outcome is undeterminable at this time.

NOTE 5 – ADJUSTMENT TO BEGINNING NET ASSETS

The following adjustments were made at January 1, 2005 to restate net assets:

	<i>Governmental Activities</i>
Barry Faber Portrait	45,000
Airport Infrastructure	7,288,927
Total Adjustment	7,333,927
Net Assets as previously stated	7,186,659
Net Assets as restated	<u>14,520,586</u>

COUNTY OF KNOX
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	5,371,216	5,371,216	5,371,178	(38)
Intergovernmental Revenues	441,557	441,557	409,973	(31,584)
Departmental Revenues	671,061	671,061	709,434	38,373
Other Local Sources	16,700	16,700	19,420	2,720
Total Revenues	6,500,534	6,500,534	6,510,005	9,471
Expenditures				
Emergency Management Agency	89,646	89,646	88,083	1,563
District Attorney	262,089	259,089	241,836	20,253
County Commissioners	225,950	225,950	208,656	17,294
County Treasurer	105,478	105,478	105,400	78
Building Maintenance	283,145	283,145	267,368	15,777
Debt Service	495,212	495,212	498,726	(3,514)
County Jail	2,845,396	2,845,396	2,689,366	156,030
Registry of Deeds	247,910	247,910	234,909	13,001
Probate Court	163,174	163,174	163,766	(592)
Sheriff's Patrol	1,487,872	1,487,872	1,383,395	104,477
All Other	305,259	305,259	187,175	118,084
Total Expenditures	6,511,131	6,508,131	6,068,680	442,451
Excess Revenues Over Expenditures	(10,597)	(7,597)	441,325	451,922
Other Financing Sources (Uses)				
Transfers to Other Funds	(89,403)	(447,130)	(447,130)	(357,727)
Total Other Financing Sources (Uses)	(89,403)	(447,130)	(447,130)	(357,727)
Excess of Revenues and Other Sources Over (Under) Expenditures	(100,000)	(454,727)	(5,805)	94,195
Unreserved Fund Balance - January 1			1,417,922	
Unreserved Fund Balance - December 31			1,412,117	

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	5,371,216	5,371,178	(38)
Intergovernmental Revenues			
Federal			
Emergency Management Agency	45,000	33,958	(11,042)
COPS Grant	41,813	35,134	(6,679)
State			
Jail Reimbursement	346,744	319,024	(27,720)
Jail Surcharge	8,000	17,785	9,785
Wildlife Refuge		3,494	3,494
Witness Fees		578	578
	441,557	409,973	(31,584)
Departmental Revenue			
Treasurer - Investment Income	1,500	30,885	29,385
Building Maintenance	74,591	55,504	(19,087)
Jail	5,500	22,243	16,743
Registry of Deeds	430,000	438,358	8,358
Probate Court	61,100	59,497	(1,603)
Sheriff	98,370	102,947	4,577
	671,061	709,434	38,373
Other Local Sources			
Miscellaneous	10,700	8,620	(2,080)
Reimburse Comp. Adm.	6,000	6,000	
SS Incentive Payment		4,800	4,800
	16,700	19,420	2,720
Total Revenues	6,500,534	6,510,005	9,471
Fund Balance Used to Calculate Assessments	454,727		
Total	6,955,261		

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2005**

*Exhibit A-2
Page 1 of 2*

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Emergency Management Agency			
Personal Services	80,141	79,948	193
Contractual Services	6,005	4,969	1,036
Commodities	2,400	2,097	303
Capital Outlay	1,100	1,069	31
	<hr/> 89,646	<hr/> 88,083	<hr/> 1,563
District Attorney			
Personal Services	214,239	206,599	7,640
Contractual Services	37,600	25,139	12,461
Commodities	7,650	7,752	(102)
Capital Outlay	(400)	2,346	(2,746)
	<hr/> 259,089	<hr/> 241,836	<hr/> 17,253
County Commissioners			
Personal Services	177,435	156,183	21,252
Contractual Services	43,165	45,273	(2,108)
Commodities	5,350	7,200	(1,850)
	<hr/> 225,950	<hr/> 208,656	<hr/> 17,294
County Treasurer			
Personal Services	97,878	97,514	364
Contractual Services	4,200	4,520	(320)
Commodities	2,600	2,566	34
Capital Outlay	800	800	-
	<hr/> 105,478	<hr/> 105,400	<hr/> 78
Building Maintenance			
Personal Services	141,495	125,990	15,505
Contractual Services	77,550	92,591	(15,041)
Commodities	60,600	46,588	14,012
Capital Outlay	3,500	2,199	1,301
	<hr/> 283,145	<hr/> 267,368	<hr/> 15,777
Debt Service			
Principal	339,835	339,835	-
Interest - Long Term Debt	130,377	130,377	-
Interest - Tax Anticipation Note	25,000	28,514	(3,514)
	<hr/> 495,212	<hr/> 498,726	<hr/> (3,514)
County Jail			
Personal Services	2,011,352	1,766,057	245,295
Contractual Services	549,489	641,513	(92,024)
Commodities	250,255	249,953	302
Capital Outlay	34,300	31,843	2,457
	<hr/> 2,845,396	<hr/> 2,689,366	<hr/> 156,030

COUNTY OF KNOX
GENERAL FUND

Exhibit A-2
Page 2 of 2

STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Registry of Deeds			
Personal Services	148,040	142,295	5,745
Contractual Services	86,470	79,841	6,629
Commodities	5,900	5,428	472
Capital Outlay	7,500	7,345	155
	247,910	234,909	13,001
Probate Court			
Personal Services	143,306	146,361	(3,055)
Contractual Services	14,843	12,901	1,942
Commodities	3,800	3,397	403
Capital Outlay	1,225	1,107	118
	163,174	163,766	(592)
Sheriff's Patrol			
Personal Services	1,193,732	1,123,759	69,973
Contractual Services	149,500	118,220	31,280
Commodities	62,700	60,037	2,663
Capital Outlay	81,940	81,379	561
	1,487,872	1,383,395	104,477
Other			
Knox-Lincoln Extension Service	49,304	49,304	-
Knox-Lincoln Soil & Water	17,255	17,255	-
EMDC	7,500	7,500	-
Time & Tide RC&D	2,000	2,000	-
Eastern Mid-Coast Regional Planning	2,500	2,500	-
Insurance	117,929	107,034	10,895
Postage Meter/Fax	3,530	1,582	1,948
Overlay	105,241		105,241
	305,259	187,175	118,084
Transfers Out			
Airport Operating	58,443	58,443	-
Reserves	388,687	388,687	-
	447,130	447,130	-
Total Appropriations	6,955,261	6,515,810	439,451

GENERAL FUND

STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

Unreserved - Undesignated Fund Balance January 1, 2005	1,417,922	
Unreserved - Undesignated Fund Balance December 31, 2005	<u>1,412,117</u>	
Increase (Decrease)		<u><u>(5,805)</u></u>
Analysis of Change		
Additions		
Budget Summary		
Revenue Surplus (Exhibit A-1)	9,471	
Unexpended (Overdraft) Balance of Appropriations (Exhibit A-2)	<u>439,451</u>	
Budget Surplus		<u>448,922</u>
Deductions		
Fund Balance Used to Calculate Assessments		<u>(454,727)</u>
Increase (Decrease)		<u><u>(5,805)</u></u>

COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2005

Exhibit B-1

Assets	Reserve Funds	Grant Funds (Exhibit B-3)	DARE Program	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Cash and Equivalents		201,375			69,297		270,672
Investments	1,310,642	23,649	11,716				1,346,007
Due from Other Governments		50,392					50,392
Due from Other Funds	33,566	86,982		61,817		130,941	313,306
Total Assets	1,344,208	362,398	11,716	61,817	69,297	130,941	1,980,377
<i>Liabilities and Fund Balances</i>							
Liabilities							
Accounts Payable		68,898					68,898
Due to Other Funds	54,478	9,359	123				63,960
Total Liabilities	54,478	78,257	123				132,858
Fund Balances							
Unreserved							
Designated for Subsequent Years'							
Expenditures	1,289,730	250,136			69,297		1,609,163
Undesignated		34,005	11,593	61,817		130,941	238,356
Total Fund Balances	1,289,730	284,141	11,593	61,817	69,297	130,941	1,847,519
Total Liabilities and Fund Balances	1,344,208	362,398	11,716	61,817	69,297	130,941	1,980,377

COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Reserve Funds (Exhibit B-5)	Grant Funds (Exhibit B-4)	DARE Program	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Revenues							
Intergovernmental Revenues							
Federal		345,947		26,592			372,539
State		111,054					111,054
Interest	24,095	16,927	208				41,230
Fair Value Increase (Decrease)	(2,736)	(71)	(38)				(2,845)
Other Local Sources	63,649	4,143	125	205,681	42,534	598,999	915,131
Total Revenues	85,008	478,000	295	232,273	42,534	598,999	1,437,109
Expenditures							
Personnel Services		156,340		153,275		562,828	872,443
Contract Services		196,318		95,574		57,140	349,032
Commodities		83		19,777		7,280	27,140
Capital Outlay						23,466	23,466
Maintenance and Supplies					37,525		37,525
Community Based Programs	534,936	102,088					102,088
Reserve Funds		22,771					534,936
Airport Monitoring/Permitting							22,771
Total Expenditures	534,936	477,600	-	268,626	37,525	650,714	1,969,401
Excess of Revenues Over (Under) Expenditures	(449,928)	400	295	(36,353)	5,009	(51,715)	(532,292)
Other Financing Sources (Uses)							
Transfers from Other Funds	415,876	25,000		75,634			516,510
Transfers to Other Funds	(70,298)	(17,191)		(25,000)		(2,000)	(114,489)
Total Other Financing Sources (Uses)	345,578	7,809		50,634		(2,000)	402,021
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(104,350)	8,209	295	14,281	5,009	(53,715)	(130,271)
Fund Balance - January 1	1,394,080	275,932	11,298	47,536	64,288	184,656	1,977,790
Fund Balance - December 31	1,289,730	284,141	11,593	61,817	69,297	130,941	1,847,519

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2005

<i>Assets</i>	<i>Victim/Witness Advocate Grant</i>	<i>Local Law Enforcement Grant</i>	<i>Matching Grants Fund</i>	<i>Local Emergency Planning Committee</i>	<i>Jane Fonda Grant</i>
Cash and Equivalents				29,692	
Investments		34	22,277		
Due from Other Governments					
Due from Other Funds	3,086		10,000		819
Total Assets	3,086	34	32,277	29,692	819
 <i>Liabilities and Fund Balances</i>					
<i>Liabilities</i>					
Accounts Payable			348		444
Due to Other Funds					
Total Liabilities			348		444
 <i>Fund Balances</i>					
Unreserved					
Designated for Subsequent Years'					
Expenditures	3,086	34		29,248	819
Undesignated			31,929		
Total Fund Balances	3,086	34	31,929	29,248	819
Total Liabilities and Fund Balances	3,086	34	32,277	29,692	819

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2005

Exhibit B-3
 Page 2 of 2

Assets	Airport Security	Airport Small Community Grant	Airport Community Grant	Knox County Law Enforcement System	Youth Referral Program	Community Based Projects	Totals
Cash and Equivalents						171,683	201,375
Investments				1,338			23,649
Due from Other Governments	17,257	33,135					50,392
Due from Other Funds	19,772	25,000		738	27,567		86,982
Total Assets	37,029	58,135		2,076	27,567	171,683	362,398

Liabilities and Fund Balances

Liabilities							
Accounts Payable						33,363	68,898
Due to Other Funds		35,535				8,567	9,359
Total Liabilities		35,535				41,930	78,257

Fund Balances							
Unreserved							
Designated for Subsequent Years' Expenditures	37,029	22,600			27,567	129,753	250,136
Undesignated				2,076			34,005
Total Fund Balances	37,029	22,600		2,076	27,567	129,753	284,141

Total Liabilities and Fund Balances	37,029	58,135		2,076	27,567	171,683	362,398
--	---------------	---------------	--	--------------	---------------	----------------	----------------

COUNTY OF KNOX
GRANT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Victim/Witness Advocate Grant	Local Law Enforcement Grant	Matching Grants Fund	Emergency Planning Committee	Jane Fonda Grant
Revenues					
Intergovernmental Revenues					
Federal	40,653			171,241	
State	5,186				
Other	14,837			750	
Fair Value Increase (Decrease)			(71)		
Interest		1	402	620	
Total Revenues	60,676	1	331	172,611	
Expenditures					
Personnel Services	40,921			3,421	
Contract Services	2,928			160,767	
Commodities	83				
Community Based Programs					
Other Governments	22,771				
Total Expenditures	66,703			164,188	
Excess of Revenues Over (Under) Expenditures	(6,027)	1	331	8,423	
Other Financing Sources (Uses)					
Transfers from Other Funds					
Transfers to Other funds					
Total Other Financing Sources (Uses)			0		
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(6,027)	1	331	8,423	
Fund Balance - January 1	9,113	33	31,598	20,825	819
Fund Balance - December 31	3,086	34	31,929	29,248	819

COUNTY OF KNOX
GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005

Revenues	Airport Security	Airport Small Community Grant	Airport Community Law Enforcement System	Youth Referral Program	Community Based Projects	Totals
Intergovernmental Revenues						
Federal	100,918	33,135				345,947
State				38,599	67,269	111,054
Other			1,340			16,927
Fair Value Increase (Decrease)						(71)
Interest			13		3,107	4,143
Total Revenues	100,918	33,135	1,353	38,599	70,376	478,000
Expenditures						
Personnel Services	69,646	8,400		33,952		156,340
Contract Services	1,851	27,135	1,787	1,850		196,318
Commodities						83
Community Based Programs					102,088	102,088
Other Governments						22,771
Total Expenditures	71,497	35,535	1,787	35,802	102,088	477,600
Excess of Revenues Over (Under) Expenditures	29,421	(2,400)	(434)	2,797	(31,712)	400
Other Financing Sources (Uses)						
Transfers from Other Funds		25,000				25,000
Transfers to Other Funds	(17,191)					(17,191)
Total Other Financing Sources (Uses)	(17,191)	25,000				7,809
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,230	22,600	(434)	2,797	(31,712)	8,209
Fund Balance - January 1	24,799		2,510	24,770	161,465	275,932
Fund Balance - December 31	37,029	22,600	2,076	27,567	129,753	284,141

COUNTY OF KNOX
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2005

Reserve Fund	Fund Balance January 1	New Funds	Transfers From Other Funds	Interest	Increase (Decrease) in Fair Value	Transfers To Other Funds	Expenditures	Fund Balance December 31
Contingency	100,849			1,768	(237)		4,168	98,212
Courthouse Computer	68,121	120	100,000	1,602	(1,188)		11,642	157,013
Courthouse Furniture/Fixtures	24,198			176	25		8,108	16,291
Courthouse Maintenance	24,178			431	134		17,971	6,772
Courthouse Renovation	180,912			2,183	1,629		176,502	8,222
Criminal Investigation	1,501			28	(4)			1,525
DA Computer	3,965		3,000	27	(15)		2,759	4,218
Deeds Surcharge	63,521	38,974		1,241	(495)		21,449	81,792
Dispatch Computer	3,102		2,000	82	(35)			5,149
Dispatch GIS	10,506			187	(30)			10,663
Dispatch Renovations	21,557			384	(61)			21,880
Dispatch Miscellaneous		7,534			(85)			7,449
Forfeiture Money	23,216	16,321		419	(207)		3,173	36,576
Health Insurance	22,511			401	(65)			22,847
Jail Capital	21,578			431	(68)			21,941
Jail Computer	17,744			316	(50)			18,010
Jail Control System	174,009			1,988	959		171,000	5,956
Jail Heating System	5,279			94	(15)			5,358
Jail Improvements	23,527		15,000	397	(39)		2,300	21,585
Jail Vehicle			244,727	24	(169)			14,855
Legal	68,838			2,122	(2,186)		73,928	239,573
Meridian Line	585			10	(2)			593
Probate Surcharge		700		1	(6)			695
Resignation Benefits	20,541			366	86		12,740	8,253
Safety	8,066			144	(23)			8,187
Security Deposit	681			12	(2)			691
Sheriff's Computer	6,003		10,000	62	(95)		2,408	13,562
Sheriff's Laptop	12,042			144	(1)			12,185
Sheriff's Vehicle	34,274		15,960	684	5		25,000	25,923
Training	768			14	(2)			780
Unemployment	14,426			257	(64)			14,619
Airport Computer	9,187			154	(11)		1,295	8,035
Airport MBNA Improvement	147,338			2,628	(408)	25,000	400	124,158
Airport Miscellaneous Equipment	15,868		15,000	283	(123)	8,067		22,961
Airport Parallel Taxiway	79,339			1,415	(208)	1,210		79,336
Airport Part 139 Requirement	39,670			668	225	32,593		7,970
Airport Projects	87,012		10,000	1,883	187	3,428	93	95,561
Airport Terminal Building	59,168		189	1,069	(92)			60,334
Total	1,394,080	63,649	415,876	24,095	(2,736)	70,298	534,936	1,289,730

**COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2005**

Exhibit C-1

<i>Assets</i>	<i>Airport Runway Project</i>	<i>Airport Taxiway Part 139 Project</i>	<i>Airport Environmental Assessment</i>	<i>Totals</i>
Due from Other Governments	72,554	323,111	47,193	442,858
Total Assets	72,554	323,111	47,193	442,858
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Retainage Payable		102,703		102,703
Due to Other Funds	72,554	220,408	47,193	340,155
Total Liabilities	72,554	323,111	47,193	442,858
 Fund Balances				
Undesignated				
Total Fund Balances	-	-	-	-
 Total Liabilities and Fund Balances	 72,554	 323,111	 47,193	 442,858

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Airport Runway Project	Airport Terminal Study	Airport Taxiway Part 139 Project	Airport Environmental Assessment	Airport Snow Removal Equipment	Totals
Revenues						
Intergovernmental Revenues						
Federal	61,707	184	1,238,519	45,983	304,911	1,651,304
State	3,428	5	32,592	1,210	8,024	45,259
Total Revenues	65,135	189	1,271,111	47,193	312,935	1,696,563
Expenditures						
Engineering Services	32,805		270,882	45,402	9,920	359,009
Construction	21,268		1,027,033		-	1,048,301
Equipment					309,750	309,750
All Other	14,490		5,789	3,001	1,332	24,612
Total Expenditures	68,563	-	1,303,704	48,403	321,002	1,741,672
Excess of Revenues Over (Under) Expenditures	(3,428)	189	(32,593)	(1,210)	(8,067)	(45,109)
Other Financing Sources (Uses)						
Transfers from Other Funds	3,428		32,593	1,210	8,067	45,298
Transfers to Other Funds		(189)				(189)
Total Other Financing Sources (Uses)	3,428	(189)	32,593	1,210	8,067	45,109
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-	-	-
Fund Balance - January 1	-	-	-	-	-	-
Fund Balance - December 31	-	-	-	-	-	-

COUNTY OF KNOX
 AGENCY FUNDS

Exhibit D-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<i>Balance January 1</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance December 31</i>
<i>Inmates Fund</i>				
<i>Assets</i>				
Cash and Equivalents	5,936	88,162	86,471	7,627
<i>Liabilities</i>				
Due to Inmates	5,936	88,162	86,471	7,627

***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***

September 26, 2006

County Commissioners
County of Knox
Rockland, ME 04841

We have audited the financial statements of the County of Knox, Maine as of and for the year ended December 31, 2005, and have issued our report thereon dated September 26, 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 the County of Knox, Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the County of Knox, Maine's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-1 and 2005-2.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Knox, Maine'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2005-1.

This report is intended solely for the information and use of the audit committee, management, County Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

***REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133***

September 26, 2006

County Commissioners
County of Knox
Rockland, Maine 04841

Compliance

We have audited the compliance of the County of Knox, Maine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The County of Knox, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Knox, Maine's management. Our responsibility is to express an opinion on the County of Knox, Maine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Audits Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Knox, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County of Knox, Maine's compliance with those requirements.

As described in item 2005-1 in the accompanying schedule of findings and questioned costs, County of Knox, Maine did not comply with requirements regarding the Davis Bacon Act that are applicable to its FAA Airport Improvements, CFDA # 20.106. Compliance with such requirements is necessary, in our opinion, for the County of Knox, Maine to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County of Knox, Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the County of Knox, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Knox, Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County of Knox, Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-1.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, County Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

***SCHEDULE I
COUNTY OF KNOX
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2005***

***Auditor's
Reference
Number***

2004-1

Major Program: FAA – Airport Improvements
CFDA #20.106
Federal Agency: Department of Transportation

Criteria: Per OMB A-133, federal grantees involved in construction activities must ensure that the contractors they employ are providing the prevailing wages for those employees that work on the related construction project.

Condition: During the course of our test work, we selected 43 employees for testing and noted 25 instances in which the employees were not being paid the prevailing wages according to the Department of Labor wage determination sheet. Fringe benefit payments to employees was not provided to the auditor.

Questioned Costs: None

Effect: The County is not in compliance with the requirements of the Davis Bacon Act.

Recommendation: We recommend the County establish a procedure to ensure that prevailing wages are paid to all people covered under the Davis Bacon Act. We recommend the County review contractor's hourly rates and fringe benefit payments to employees to ensure they are in compliance with the Davis Bacon Act.

Management's Response: Management concurs with the finding and will have the engineer monitor the contractor's to be in full compliance with the Davis Bacon Act.

Fringe benefit payments were provided to the auditor within a month after the financial statements were issued. The County believes they were in compliance with the Davis Bacon Act.

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2005

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the general-purpose financial statements of the County of Knox, Maine.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the *Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the County of Knox, Maine were disclosed during the audit.
4. One reportable conditions in internal control over major federal programs disclosed during the audit is reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*. The condition in not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for the County of Knox, Maine expresses a qualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program is:

FAA – Airport Improvements CFDA # 20.106.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County of Knox, Maine was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2005-2 Work Release/Inmate Fund

The County is required to maintain records to account for the above inmate funds. Last year's report pointed out that bookkeeping and monitoring of these accounts had been done, and cash on hand had not been counted and proved to spreadsheets.

Our review of these records for the current year revealed that personnel has not been keeping up with reconciling the bank statements to the records on the computer and information had not been entered on the computer for three to four months. Although not material in amounts compared to other County funds, there is a considerable amount of record keeping involved to properly maintain these accounts. The bookkeeper needs to reconcile the bank statements on a monthly basis to the computer, verify everything has been entered on the computer, and keep all records up to date. We recommend the County monitor the above area on a monthly basis to ensure adequate records are maintained, bank statements are reconciled, and cash on hand matches shift closing reports.

C. *FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT*

2005-1

Major Program: FAA – Airport Improvements
CFDA #20.106
Federal Agency: Department of Transportation

Criteria: Per OMB A-133, federal grantees involved in construction activities must ensure that the contractors they employ are providing the prevailing wages for those employees that work on the related construction project.

Condition: During the course of our test work, we selected 40 employees for testing and noted 7 instances in which the employees were not being paid the prevailing wages according to the Department of Labor wage determination sheet.

Questioned Costs: None

Effect: The County is not in compliance with the requirements of the Davis Bacon Act.

Recommendation: We recommend the County establish a procedure to ensure that prevailing wages are paid to all people covered under the Davis Bacon Act. We recommend the County review contractor's hourly rates and fringe benefit payments to employees to ensure they are in compliance with the Davis Bacon Act.

Management's Response: Management concurs with the finding and will have the engineer monitor the contractor's to be in full compliance with the Davis Bacon Act.

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

SCHEDULE III

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass-through Number</i>	<i>Program or Award Amount</i>	<i>Expenditures</i>
U.S. Department of Transportation Federal Aviation Administration				
Airport Improvements - Runway Project	20.106		2,190,000	68,563
Airport Improvements - Airport Security	20.106		100,236	88,688
Airport Improvements - Taxiway Part 139 Project	20.106		1,268,250	1,303,704
Airport Improvements - Environmental Assessment	20.106		171,000	48,403
Airport Improvements - Snow Removal Equipment	20.106		322,000	321,002
Airport Improvements - Terminal Building Study	20.106		133,000	189
Small Community Air Service	20.930		555,000	35,535
Total U.S. Department of Transportation			4,739,486	1,866,084
U.S. Department of Homeland Security 2004 Homeland Security Program	97.067		157,337	93,500
2003 Homeland Security Supplemental	97.067		100,963	35,969
WMD Exercise Grant	97.006		50,000	28,572
Pre Disaster Mitigation Grant	97.017		28,000	285
WMD Terrorism Training Grant	97.014		5,736	1,103
FEMA Snowstorm	97.036		5,472	5,472
Hazmat Ops Training	97.020		3,750	3,600
Total U.S. Department of Homeland Security			351,258	168,501
U.S. Department of Justice COPS in School Grant	16.710		122,288	35,134
Passed Through Maine Department of Human Services				
Crime Victims Assistance	16.575	013-10A-8772-012-6401	20,195	20,195
Crime Victims Assistance	16.575	013-10A-8772-012-6401	20,196	20,196
Total U.S. Department of Justice			162,679	75,525
Total			5,253,423	2,110,110

COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting whereby transactions are presented in the same way as they are included in the financial statements of the County of Knox, Maine in accordance with generally accepted accounting principles.

James W. Wadman

Certified Public Accountant

Telephone 207-667-6500

Facsimile 207-667-3636

E-Mail jimwadman@adelphia.net

Independent Auditor's Communication of Reportable Conditions and Other Matters

September 26, 2006

County Commissioners
County of Knox
Rockland, Maine 04841

In planning and performing our audit of the financial statements of the County of Knox, Maine for the year ended December 31, 2005, we considered its internal control structure 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, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the County of Knox, Maine's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions 2005-1 and 2005-2 are not considered to be material weaknesses.

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 of 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

James W. Wadman, CPA

James W. Wadman, CPA

REPORTABLE CONDITIONS

2005-1 Grant Administration

The County is required to monitor the wages paid to employees of the contractors working on the Airport Projects to verify they are paying the prevailing wage rates according to the Department of Transportation to be in compliance with the Davis Bacon Act. Our testing of the wages indicated the County is not monitoring the wage rates for these employees of the contractors. We recommend that the County monitor the wage rates paid to all employees of the contractors working on these Airport Projects to ensure the County is in compliance with the Davis Bacon Act.

2005-2 Work Release/Inmate Fund

The County is required to maintain records to account for the above inmate funds. Last year's report pointed out that bookkeeping and monitoring of these accounts had been done, and cash on hand had not been counted and proved to spreadsheets.

Our review of these records for the current year revealed that personnel has not been keeping up with reconciling the bank statements to the records on the computer and information had not been entered on the computer for three to four months. Although not material in amounts compared to other County funds, there is a considerable amount of record keeping involved to properly maintain these accounts. The bookkeeper needs to reconcile the bank statements on a monthly basis to the computer, verify everything has been entered on the computer, and keep all records up to date. We recommend the County monitor the above area on a monthly basis to ensure adequate records are maintained, bank statements are reconciled, and cash on hand matches shift closing reports.