

COUNTY OF KNOX, MAINE

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR
ENDED DECEMBER 31, 2006*

**COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2006**

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

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INDEPENDENT AUDITOR'S REPORT

May 30, 2007

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, 2006, 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, 2006, 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 May 30, 2007 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 assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3-6 and 26 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 and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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, 2006

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, 2006. 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, 2006 by \$15,783,552 (presented as “net assets”). Of this amount, \$2,041,450 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 decreased by \$11,868 (a .08% decrease) for the fiscal year ended December 31, 2006.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2006, the County's governmental funds reported a combined ending fund balance of \$2,882,323 with \$1,212,812 being general undesignated fund balance. This undesignated fund balance represents approximately 17% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations decreased by \$362,264 (22.6%) 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

84.7% 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 2006	Total 2005
Current Assets	3,160,284	3,777,694
Capital Assets	14,612,559	14,580,416
Total Assets	17,772,843	18,358,110
Current Liabilities	1,136,184	1,323,047
Other Liabilities	853,107	1,239,643
Total Liabilities	1,989,291	2,562,690
Net Assets:		
Invested in Capital Assets	13,372,916	12,978,509
Restricted	369,186	319,433
Unrestricted	2,041,450	2,497,478
Total Net Assets	15,783,552	15,795,420
Total Liabilities and Net Assets	17,772,843	18,358,110

Changes in Net Assets

Approximately 69.4 percent of the County's total revenue came from assessments, approximately 15.2 percent came from State subsidies and grants, and approximately 15.4 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$466,513 of the total expenses for the fiscal year.

	<u>Total 2006</u>	<u>Total 2005</u>
<i>Revenues:</i>		
District Assessments	6,302,110	5,970,177
Intergovernmental Revenues	1,376,199	2,590,129
Departmental Revenues	863,210	709,434
Other Local Sources	540,221	373,937
<i>Total</i>	<u>9,081,740</u>	<u>9,643,677</u>
<i>Expenses:</i>		
Emergency Management Agency	136,676	252,661
District Attorney	343,379	316,449
County Commissioners	525,227	277,647
County Treasurer	128,131	105,608
Building Maintenance	310,400	267,835
Debt Service	148,041	154,621
County Jail	3,354,233	2,997,177
Registry of Deeds	283,173	251,700
Probate Court	180,942	163,739
Sheriff's Patrol	1,614,989	1,433,112
Dispatch	660,964	635,258
Capital Outlay	183,402	181,742
Airport	949,548	980,117
All Other	274,503	187,175
	<u>9,093,608</u>	<u>8,204,841</u>
<i>Changes in Net Assets</i>	<u>(11,868)</u>	<u>1,438,836</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 \$2,882,323 a decrease of \$377,313 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 \$18,106,663 net of accumulated depreciation of \$3,494,104 leaving a net book value of \$14,612,559.

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, 2006**

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	1,713,327
Investments	1,252,967
Accounts Receivable	90,075
Due from Other Governments	103,915
Capital Assets:	
Land	1,535,454
Other Capital Assets, Net of Depreciation	<u>13,077,105</u>
Total Assets	<u><u>17,772,843</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	144,510
Deferred Revenue - Other	133,451
Compensated Absences	305,285
Accrued Salaries	166,402
Long-term Liabilities:	
Due Within One Year	386,536
Due in More Than One Year	<u>853,107</u>
 Total Liabilities	 <u>1,989,291</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	13,372,916
Restricted Net Assets	369,186
Unrestricted	<u>2,041,450</u>
 Total Net Assets	 <u>15,783,552</u>
Total Liabilities and Net Assets	<u><u>17,772,843</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, 2006

Exhibit B

Functions/Programs Primary Government	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Total	
Governmental Activities	Fees, Fines, and Charges for Services	Operating Grants	Governmental Activities
Emergency Management Agency	136,676	99,811	(35,639)
District Attorney	343,379	58,132	(285,247)
County Commissioners	525,227		(525,227)
County Treasurer	128,131		(87,794)
Building Maintenance	310,400		(235,461)
Debt Service	148,041		(148,041)
County Jail	3,354,233	357,982	(2,960,767)
Registry of Deeds	283,173		266,938
Probate Court	180,942		(80,491)
Sheriff's Patrol	1,614,989	10,768	(1,369,860)
Dispatch	660,964	23,414	(2,068)
Capital Outlay	183,402		(183,402)
Airport	949,548	503,972	(245,568)
All Other	274,503	3,666	(270,837)
Total Governmental Activities	9,093,608	1,057,745	(6,163,464)
Total Primary Government	9,093,608	1,057,745	(6,163,464)
General Revenues:			
Assessments			5,666,628
Airport Federal and State Grants for Capital Assets & Infrastructure			177,382
Emergency Management Federal Grant for Capital Assets			152,760
Other Local Sources			154,826
Total Revenues, Special Items and Transfers			6,151,596
Changes in Net Assets			(11,868)
Net Assets - Beginning, as restated			15,795,420
Net Assets - Ending			15,783,552

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

Exhibit C
Page 1 of 2

<i>Assets</i>	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Other Governmental Funds</i>	<i>Total</i>
Cash and Equivalents	1,387,989		325,338	1,713,327
Investments		1,215,918	37,049	1,252,967
Accounts Receivable	90,075			90,075
Due from Other Funds	165,802	69,048	191,688	426,538
Due from Other Governments			103,915	103,915
Total Assets	1,643,866	1,284,966	657,990	3,586,822
 <i>Liabilities and Fund Balance</i>				
Liabilities				
Accounts Payable	109,330		35,180	144,510
Due to Other Funds	188,273	159,462	78,803	426,538
Deferred Revenues	133,451			133,451
Total Liabilities	431,054	159,462	113,983	704,499
 <i>Fund Balances</i>				
Unreserved	1,212,812		177,169	1,389,981
Unreserved, Reported in Nonmajor Special Revenue Funds		1,125,504	366,838	1,492,342
Total Fund Balances	1,212,812	1,125,504	544,007	2,882,323
Total Liabilities and Fund Balances	1,643,866	1,284,966	657,990	3,586,822

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

Exhibit C
Page 2 of 2

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

Total Fund Balance	2,882,323
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,494,104	<u>14,612,559</u>
	<u>14,612,559</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Bonds Payable	(1,239,643)
Accrued Salaries	(166,402)
Accrued Compensated Absences	<u>(305,285)</u>
	<u>(1,711,330)</u>
Net Assets of Governmental Activities	<u><u>15,783,552</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, 2006

Exhibit D
Page 1 of 2

	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues				
Assessments	5,666,628		635,482	6,302,110
Intergovernmental Revenues	405,491		970,708	1,376,199
Departmental Revenues	863,210			863,210
Other Local Sources	20,499	246,016	273,706	540,221
Total Revenues	6,955,828	246,016	1,879,896	9,081,740
Expenditures				
Emergency Management Agency	91,203		189,469	280,672
District Attorney	271,432	550	69,643	341,625
County Commissioners	218,358	301,463		519,821
County Treasurer	126,450			126,450
Building Maintenance	310,681			310,681
Debt Service	510,305			510,305
County Jail	3,133,514	32,254	109,024	3,274,792
Registry of Deeds	240,179	42,899		283,078
Probate Court	182,222			182,222
Sheriff's Patrol	1,601,543	2,211		1,603,754
Dispatch		5,911	653,936	659,847
Airport		19,505	888,396	907,901
Capital Outlay		183,402		183,402
All Other	273,705		798	274,503
Total Expenditures	6,959,592	588,195	1,911,266	9,459,053
Excess of Revenues Over (Under)				
Expenditures	(3,764)	(342,179)	(31,370)	(377,313)
Other Financing Sources (Uses)				
Transfers from Other Funds	76,831	300,000	108,693	485,524
Transfers to Other Funds	(272,372)	(122,047)	(91,105)	(485,524)
Total Other Financing Sources (Uses)	(195,541)	177,953	17,588	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(199,305)	(164,226)	(13,782)	(377,313)
Fund Balance - January 1	1,412,117	1,289,730	557,789	3,259,636
Fund Balance - December 31	1,212,812	1,125,504	544,007	2,882,323

(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, 2006**

**Exhibit D
Page 2 of 2**

Net change in fund balances - total governmental funds	(377,313)
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	542,785
Capital asset dispositions	(44,129)
Depreciation expense	(466,513)
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:	
General obligation bond principal payments	362,264
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 salaries	(2,400)
Accrued compensated absences	(26,562)
	<hr/>
Change in net assets of governmental activities	<u>(11,868)</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, 2006

Exhibit E

	<u>Agency Fund</u>
	<u>Inmate Fund</u>
Assets	
Cash and Equivalents	<u>17,857</u>
Total Assets	<u><u>17,857</u></u>
Liabilities	
Due to Inmates	<u>17,857</u>
Total Liabilities	<u><u>17,857</u></u>

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

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

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.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2006

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.

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, 2006

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, 2006**

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, 2006

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, 2006

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 \$1,731,184 and the bank balance was \$1,908,141. 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>1,908,141</u>	<u>301,208</u>	<u>1,400,141</u>	<u>206,792</u>

Included in the County's cash equivalents at December 31, 2006, 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, 2006, the County held investments in repurchase agreements as follows:

<i>Amount</i>	<i>Interest Rate</i>	<i>Maturity Date</i>	<i>Underlying Securities</i>	<i>Market Value</i>
<u>\$ 206,000</u>	4.63%	1/1/2007	SEC 12 FED Home	<u>\$ 204,552</u>
<u>\$ 1,206,244</u>	Various	1/1/2007	Various CD's	<u>\$ 1,206,244</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>1,252,967</u>	<u>1,252,967</u>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

C. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<i>Governmental Activities;</i>				
<i>Capital assets not being depreciated</i>				
Land	1,535,454			1,535,454
<i>Capital assets being depreciated</i>				
Buildings	5,750,356	60,190		5,810,546
Equipment	1,718,431	321,328	(306,645)	1,733,114
Infrastructure	8,866,282	161,267		9,027,549
<i>Total capital assets being depreciated</i>	16,335,069	542,785	(306,645)	16,571,209
<i>Less accumulated depreciation for</i>				
Buildings	1,805,275	116,293		1,921,568
Equipment	778,452	169,669	(262,516)	685,605
Infrastructure	706,380	180,551		886,931
<i>Total accumulated depreciation</i>	3,290,107	466,513	(262,516)	3,494,104
<i>Net capital assets being depreciated</i>	13,044,962	76,272	(44,129)	13,077,105
Governmental Activities Capital Assets, net	14,580,416	76,272	(44,129)	14,612,559

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

<u>Governmental Activities</u>	
Emergency Management	10,184
District Attorney	518
County Commissioners	4,364
County Treasurer	106
County Jail	133,976
Registry of Deeds	1,379
Sheriff's Patrol	95,020
Dispatch	1,235
Airport	219,731
Total Depreciation Expense - Governmental Activities	466,513

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2006, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 6,062,650,000
Unorganized territories	<u>11,850,000</u>
Total assessed valuation	6,074,500,000
Tax rate	<u>0.0009329</u>
Current tax commitment	<u>\$ 5,666,628</u>
Appropriations	6,980,480
Overlay	<u>111,110</u>
	7,091,590
Less:	
Estimated revenues	<u>(1,424,962)</u>
Current tax commitment	<u>\$ 5,666,628</u>

E. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2006, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	165,802	188,273
Special Revenue Funds		
Reserve Funds	69,048	159,462
Airport Fund	22,401	
Grant Funds	61,800	792
DARE		123
Dispatch Fund	107,487	
Capital Project Fund	<u> </u>	<u>77,888</u>
Totals	<u>426,538</u>	<u>426,538</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, 2006**

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>1,239,643</u>

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$170,993 are as follows:

<i>Year Ended December 31,</i>	<i>General Obligation Debt</i>
2007	470,212
2008	470,212
2009	470,212
Total	<u>1,410,636</u>

2. Changes in Long-Term Debt

The following summary of long-term debt transactions of Knox County for the year ended December 31, 2006:

Long-term Debt payable January 1, 2006	1,601,907
Debt Issued	
Debt Retired	<u>(362,264)</u>
Long-term Debt payable December 31, 2006	<u>1,239,643</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, 2006**

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 2004, 2005, and 2006.

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 \$136,590 and the participants have contributed \$76,193 for the year-ended December 31, 2006.

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, 2006

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 for the class action lawsuit will amount to \$375,000 payable by the County in fiscal year ending 12/31/07.

COUNTY OF KNOX
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	5,666,628	5,666,628	5,666,628	-
Intergovernmental Revenues	411,118	383,798	405,491	21,693
Departmental Revenues	743,369	743,369	863,210	119,841
Other Local Sources	17,200	17,200	20,499	3,299
Total Revenues	6,838,315	6,810,995	6,955,828	144,833
Expenditures				
Emergency Management Agency	89,723	92,350	91,203	1,147
District Attorney	268,189	270,908	271,432	(524)
County Commissioners	212,911	242,905	218,358	24,547
County Treasurer	124,029	124,029	126,450	(2,421)
Building Maintenance	293,998	297,664	310,681	(13,017)
Debt Service	495,212	495,212	510,305	(15,093)
County Jail	3,123,863	3,148,133	3,133,514	14,619
Registry of Deeds	237,660	237,660	240,179	(2,519)
Probate Court	175,779	175,779	182,222	(6,443)
Sheriff's Patrol	1,571,446	1,601,354	1,601,543	(189)
All Other	454,598	408,540	273,705	134,835
Total Expenditures	7,047,408	7,094,534	6,959,592	134,942
Excess Revenues Over Expenditures	(209,093)	(283,539)	(3,764)	279,775
Other Financing Sources (Uses)				
Transfers from Other Funds	15,000	76,831	76,831	-
Transfers to Other Funds	(53,987)	(272,372)	(272,372)	(218,385)
Total Other Financing Sources (Uses)	(38,987)	(195,541)	(195,541)	(218,385)
Excess of Revenues and Other Sources Over (Under) Expenditures	(248,080)	(479,080)	(199,305)	48,775
Unreserved Fund Balance - January 1			1,412,117	
Unreserved Fund Balance - December 31			1,212,812	

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	5,666,628	5,666,628	-
Intergovernmental Revenues			
Federal			
Emergency Management Agency	46,016	44,868	(1,148)
COPS Grant	31,529	23,414	(8,115)
Bulletproof Vest Grant	856	856	-
Domestic Violence Grant	9,165	9,165	-
Underage Drinking Grant	9,912	9,912	-
Wildlife Refuge Fees		6,652	6,652
State			
Jail Reimbursement	266,901	281,447	14,546
Jail Surcharge	8,000	17,640	9,640
Furnace Reimbursement	3,666	3,666	-
Fuel Reimbursement	7,753	7,753	-
Witness Fees		118	118
	<u>383,798</u>	<u>405,491</u>	<u>21,693</u>
Departmental Revenue			
Treasurer - Investment Income	9,500	40,337	30,837
Building Maintenance	68,756	74,939	6,183
Jail	7,150	4,857	(2,293)
Registry of Deeds	475,000	513,355	38,355
Probate Court	61,100	97,151	36,051
Sheriff	121,863	132,571	10,708
	<u>743,369</u>	<u>863,210</u>	<u>119,841</u>
Other Local Sources			
Miscellaneous	9,700	10,399	699
Reimburse Comp. Adm.	7,500	7,500	-
SS Incentive Payment		2,600	2,600
	<u>17,200</u>	<u>20,499</u>	<u>3,299</u>
Operating Transfers In			
Transfers from Reserves	76,831	76,831	-
	<u>76,831</u>	<u>76,831</u>	<u>-</u>
Total Revenues and Transfers	6,887,826	<u>7,032,659</u>	<u>144,833</u>
Fund Balance Used to Calculate Assessments	<u>479,080</u>		
Total	<u><u>7,366,906</u></u>		

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit A-2
Page 1 of 2

	<i>Budget</i>	<i>Actual</i>	<i>(Over)</i> <i>Under</i> <i>Budget</i>
Emergency Management Agency			
Personal Services	83,865	84,371	(506)
Contractual Services	6,260	5,002	1,258
Commodities	2,225	1,830	395
	<hr/> 92,350	<hr/> 91,203	<hr/> 1,147
District Attorney			
Personal Services	222,812	223,218	(406)
Contractual Services	36,646	36,159	487
Commodities	8,450	8,576	(126)
Capital Outlay	3,000	3,479	(479)
	<hr/> 270,908	<hr/> 271,432	<hr/> (524)
County Commissioners			
Personal Services	164,789	155,223	9,566
Contractual Services	71,011	57,667	13,344
Commodities	7,105	5,468	1,637
	<hr/> 242,905	<hr/> 218,358	<hr/> 24,547
County Treasurer			
Personal Services	115,579	117,238	(1,659)
Contractual Services	5,450	5,725	(275)
Commodities	3,000	3,487	(487)
	<hr/> 124,029	<hr/> 126,450	<hr/> (2,421)
Building Maintenance			
Personal Services	148,088	140,176	7,912
Contractual Services	83,476	95,225	(11,749)
Commodities	66,100	75,280	(9,180)
	<hr/> 297,664	<hr/> 310,681	<hr/> (13,017)
Debt Service			
Principal	362,264	362,264	-
Interest - Long Term Debt	107,948	107,948	-
Interest - Tax Anticipation Note	25,000	40,093	(15,093)
	<hr/> 495,212	<hr/> 510,305	<hr/> (15,093)
County Jail			
Personal Services	2,071,212	1,964,496	106,716
Contractual Services	760,903	860,699	(99,796)
Commodities	282,365	274,818	7,547
Capital Outlay	33,653	33,501	152
	<hr/> 3,148,133	<hr/> 3,133,514	<hr/> 14,619

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Registry of Deeds			
Personal Services	146,100	150,513	(4,413)
Contractual Services	85,605	84,573	1,032
Commodities	5,955	5,093	862
	<hr/> 237,660	<hr/> 240,179	<hr/> (2,519)
Probate Court			
Personal Services	155,861	160,927	(5,066)
Contractual Services	15,218	17,524	(2,306)
Commodities	4,200	3,771	429
Capital Outlay	500		500
	<hr/> 175,779	<hr/> 182,222	<hr/> (6,443)
Sheriff's Patrol			
Personal Services	1,239,358	1,254,587	(15,229)
Contractual Services	163,194	155,696	7,498
Commodities	67,191	61,165	6,026
Capital Outlay	131,611	130,095	1,516
	<hr/> 1,601,354	<hr/> 1,601,543	<hr/> (189)
Other			
Knox-Lincoln Extension Service	50,783	50,783	-
Knox-Lincoln Soil & Water	17,773	17,773	-
EMDC	20,000	20,000	-
Time & Tide RC&D	2,000	2,000	-
Eastern Mid-Coast Regional Planning	2,500	2,500	-
Insurance	200,850	178,198	22,652
Postage Meter/Fax	3,524	2,451	1,073
Overlay	111,110		111,110
	<hr/> 408,540	<hr/> 273,705	<hr/> 134,835
Transfers Out			
Airport Operating	31,882	31,882	-
DA Grant	9,490	9,490	-
Reserves	231,000	231,000	-
	<hr/> 272,372	<hr/> 272,372	<hr/> -
Total Appropriations	<hr/> 7,366,906	<hr/> 7,231,964	<hr/> 134,942

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit A-3

Unreserved - Undesignated Fund Balance January 1, 2006	1,412,117	
Unreserved - Undesignated Fund Balance December 31, 2006	<u>1,212,812</u>	
Increase (Decrease)		<u><u>(199,305)</u></u>
Analysis of Change		
Additions		
Budget Summary		
Revenue Surplus (Exhibit A-1)	144,833	
Unexpended (Overdraft) Balance of Appropriations (Exhibit A-2)	<u>134,942</u>	
Budget Surplus		<u>279,775</u>
Deductions		
Fund Balance Used to Calculate Assessments		<u>(479,080)</u>
Increase (Decrease)		<u><u>(199,305)</u></u>

**COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006**

Exhibit B-1

<i>Assets</i>	<i>Reserve Funds</i>	<i>Grant Funds (Exhibit B-3)</i>	<i>DARE Program</i>	<i>Airport Fund</i>	<i>Inmate Fund</i>	<i>Dispatch Fund</i>	<i>Totals</i>
Cash and Equivalents		245,267			80,071		325,338
Investments	1,215,918	24,605	12,444				1,252,967
Due from Other Governments		26,027					26,027
Due from Other Funds	69,048	61,800		22,401		107,487	260,736
Total Assets	1,284,966	357,699	12,444	22,401	80,071	107,487	1,865,068

Liabilities and Fund Balances

<i>Liabilities</i>							
Accounts Payable		35,180					35,180
Due to Other Funds	159,462	792	123				160,377
Total Liabilities	159,462	35,972	123				195,557

<i>Fund Balances</i>							
Unreserved							
Designated for Subsequent Years'							
Expenditures	1,125,504	286,767			80,071		1,492,342
Undesignated		34,960	12,321	22,401		107,487	177,169
Total Fund Balances	1,125,504	321,727	12,321	22,401	80,071	107,487	1,669,511

Total Liabilities and Fund Balances	1,284,966	357,699	12,444	22,401	80,071	107,487	1,865,068
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COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Reserve Funds (Exhibit B-5)	Grant Funds (Exhibit B-4)	DARE Program	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Revenues							
Intergovernmental Revenues							
Federal		482,830		21,120			503,950
State		68,519					68,519
Interest	31,894	35,050	361				67,305
Fair Value Increase (Decrease)	13,476	231	117				13,824
Other Local Sources	200,646	7,062	250	200,008	30,627	635,482	1,074,075
Total Revenues	246,016	593,692	728	221,128	30,627	635,482	1,727,673
Expenditures							
Personnel Services		115,569		166,993		588,028	870,590
Contract Services		336,680		66,612		60,167	463,459
Commodities		4,105		15,341		5,741	25,187
Capital Outlay		798		1,585			2,383
Maintenance and Supplies					19,853		19,853
Community Based Programs		88,568					88,568
Reserve Funds	588,195						588,195
Airport Monitoring/Permitting		22,771					22,771
Total Expenditures	588,195	568,491	-	250,531	19,853	653,936	2,081,006
Excess of Revenues Over (Under) Expenditures	(342,179)	25,201	728	(29,403)	10,774	(18,454)	(353,333)
Other Financing Sources (Uses)							
Transfers from Other Funds	300,000	61,454		53,987			415,441
Transfers to Other Funds	(122,047)	(49,069)		(64,000)		(5,000)	(240,116)
Total Other Financing Sources (Uses)	177,953	12,385		(10,013)		(5,000)	175,325
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(164,226)	37,586	728	(39,416)	10,774	(23,454)	(178,008)
Fund Balance - January 1	1,289,730	284,141	11,593	61,817	69,297	130,941	1,847,519
Fund Balance - December 31	1,125,504	321,727	12,321	22,401	80,071	107,487	1,669,511

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2006

Exhibit B-3
 Page 1 of 2

Assets	Victim/Witness Advocate Grant	Local Law Enforcement Grant	Matching Grants Fund	Local Emergency Planning Committee	Jane Fonda Grant
Cash and Equivalents				49,152	
Investments		35	23,177		
Due from Other Governments					
Due from Other Funds	947		10,000		21
Total Assets	947	35	33,177	49,152	21

Liabilities and Fund Balances

Liabilities					
Accounts Payable					
Due to Other Funds			348	444	
Total Liabilities			348	444	

Fund Balances					
Unreserved					
Designated for Subsequent Years'					
Expenditures	947	35	32,829	48,708	21
Undesignated					
Total Fund Balances	947	35	32,829	48,708	21
Total Liabilities and Fund Balances	947	35	33,177	49,152	21

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2006

Exhibit B-3
 Page 2 of 2

<i>Assets</i>	<i>Airport Security</i>	<i>Airport Small Community Grant</i>	<i>Airport Community Grant</i>	<i>Knox County Law Enforcement System</i>	<i>Community Based Projects</i>	<i>Totals</i>
Cash and Equivalents		34,816			161,299	245,267
Investments				1,393		24,605
Due from Other Governments	26,027					26,027
Due from Other Funds	23,316	20,950		738	5,828	61,800
Total Assets	49,343	55,766		2,131	167,127	357,699
<i>Liabilities and Fund Balances</i>						
<i>Liabilities</i>						
Accounts Payable					35,180	35,180
Due to Other Funds						792
Total Liabilities					35,180	35,972
<i>Fund Balances</i>						
Unreserved						
Designated for Subsequent Years'						
Expenditures	49,343	55,766			131,947	286,767
Undesignated				2,131		34,960
Total Fund Balances	49,343	55,766		2,131	131,947	321,727
Total Liabilities and Fund Balances	49,343	55,766		2,131	167,127	357,699

**COUNTY OF KNOX
GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Exhibit B-4
Page 1 of 2

	Victim/Witness Advocate Grant	Local Law Enforcement Grant	Matching Grants Fund	Local Emergency Planning Committee	Jane Fonda Grant
Revenues					
Intergovernmental Revenues					
Federal	40,820			203,223	
State	5,144			4,480	
Other	12,050				
Fair Value Increase (Decrease)			217		
Interest		1	683	1,226	
Total Revenues	58,014	1	900	208,929	
Expenditures					
Personnel Services	43,976			5,794	
Contract Services				183,675	
Commodities	2,896				
Equipment					798
Community Based Programs					
Other Governments					
Total Expenditures	22,771			189,469	798
Excess of Revenues Over (Under) Expenditures	69,643				
	(11,629)	1	900	19,460	(798)
Other Financing Sources (Uses)					
Transfers from Other Funds	9,490				
Transfers to Other funds					
Total Other Financing Sources (Uses)	9,490				
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,139)	1	900	19,460	(798)
Fund Balance - January 1	3,086	34	31,929	29,248	819
Fund Balance - December 31	947	35	32,829	48,708	21

COUNTY OF KNOX
GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues	Airport Security	Small Community Grant	Airport Grant	Knox County Law Enforcement System	Youth Referral Program	Community Based Projects	Totals
Intergovernmental Revenues							
Federal	103,259		135,528				482,830
State						58,895	68,519
Other		23,000		14			35,050
Fair Value Increase (Decrease)			208	41		4,903	231
Interest				55			7,062
Total Revenues	103,259	158,736				63,798	593,692
Expenditures							
Personnel Services	65,799						115,569
Contract Services	1,832	150,570			603		336,680
Commodities	1,209						4,105
Equipment							798
Community Based Programs						88,568	88,568
Other Governments							22,771
Total Expenditures	68,840	150,570		-	603	88,568	568,491
Excess of Revenues Over (Under) Expenditures	34,419	8,166		55	(603)	(24,770)	25,201
Other Financing Sources (Uses)							
Transfers from Other Funds		25,000				26,964	61,454
Transfers to Other Funds	(22,105)				(26,964)		(49,069)
Total Other Financing Sources (Uses)	(22,105)	25,000			(26,964)	26,964	12,385
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,314	33,166		55	(27,567)	2,194	37,586
Fund Balance - January 1	37,029	22,600		2,076	27,567	129,753	284,141
Fund Balance - December 31	49,343	55,766		2,131	-	131,947	321,727

COUNTY OF KNOX
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B-5

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	98,212			1,623	1,173		89,793	11,215
Courthouse Computer	157,013			3,691	1,729	3,147	80,071	79,215
Courthouse Furniture/Fixtures	16,291			486	165		893	16,049
Courthouse Maintenance	6,772	58,800	5,000	208	(80)		2,753	67,947
Courthouse Renovation	8,222			153	139		6,146	2,368
Criminal Investigation	1,525			47	14			1,586
DA Computer	4,218			131	42		550	3,841
Deeds Surcharge	81,792	36,756		2,534	911		42,899	79,094
Dispatch Computer	5,149			145	62		4,711	5,645
Dispatch GIS	10,663		5,000	327	107			11,097
Dispatch Renovations	21,880			671	220			22,771
Dispatch Miscellaneous	7,449			228	76		1,200	6,553
Forfeiture Money	36,576			1,848	137		2,166	138,185
Health Insurance	22,847	101,790		701	226	12,238		11,536
Jail Capital	21,941			749	225		7,321	15,594
Jail Computer	18,010			549	187	611	3,145	14,990
Jail Control System	5,956			93	64		3,500	2,613
Jail Heating System	5,358			164	55			5,577
Jail Improvements	21,585		10,000	469	254	22,388	7,589	2,331
Jail Vehicle	14,855			302	175		10,699	4,633
Legal	239,573		200,000	4,105	2,709	19,955	293,411	133,021
Meridian Line	593			18	8			619
Probate Surcharge	695	3,300		60	(3)			4,052
Resignation Benefits	8,253		8,000	149	71		3,746	12,727
Safety	8,187			251	82			8,520
Security Deposit	691			21	6			718
Sheriff's Computer	13,562			338	109		45	13,964
Sheriff's Laptop	12,185			251	82			12,518
Sheriff's Vehicle	25,923			342	304	18,492		8,077
Training	780			24	7			811
Unemployment	14,619		8,000	308	145		8,052	15,020
Airport Computer	8,035			246	82			8,363
Airport MBNA Improvement	124,158			4,180	1,530		16,115	113,753
Airport Miscellaneous Equipment	22,961		30,000	654	171	5,902	3,390	44,494
Airport Parallel Taxiway	79,336			2,433	796	3,763		78,802
Airport Part 139 Requirement	7,970		4,000	330	97	689		11,708
Airport Projects	95,561		30,000	1,324	831	34,862		92,854
Airport Terminal Building	60,334			1,741	568			62,643
Total	1,289,730	200,646	300,000	31,894	13,476	122,047	588,195	1,125,504

**COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2006**

Exhibit C-1

<i>Assets</i>	<i>Airport Parallel Taxiway</i>	<i>Airport Taxiway Part 139 Project</i>	<i>Airport Environmental Assessment</i>	<i>Totals</i>
Due from Other Governments	40,887	30,582	6,419	77,888
Total Assets	40,887	30,582	6,419	77,888
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Due to Other Funds	40,887	30,582	6,419	77,888
Total Liabilities	40,887	30,582	6,419	77,888
Fund Balances				
Undesignated				
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	40,887	30,582	6,419	77,888

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C-2

	Airport Runway Project	Airport Parallel Taxiway	Airport Taxiway Part 139 Project	Airport Environmental Assessment	Airport Snow Removal Equipment	Totals
Revenues						
Intergovernmental Revenues						
Federal	121,001	143,006	26,182	94,391		384,580
State	6,722	3,764	689	2,484		13,659
Total Revenues	127,723	146,770	26,871	96,875	-	398,239
Expenditures						
Engineering Services	33,034	146,833	15,735	98,077	4,793	298,472
Construction	102,067		10,431			112,498
Equipment					1,109	1,109
All Other		3,700	1,394	1,282		6,376
Total Expenditures	135,101	150,533	27,560	99,359	5,902	418,455
Excess of Revenues Over (Under) Expenditures	(7,378)	(3,763)	(689)	(2,484)	(5,902)	(20,216)
Other Financing Sources (Uses) Transfers from Other Funds	7,378	3,763	689	2,484	5,902	20,216
Total Other Financing Sources (Uses)	7,378	3,763	689	2,484	5,902	20,216
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, 2006

	<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	7,627	123,380	113,150	17,857
<i>Liabilities</i>				
Due to Inmates	7,627	123,380	113,150	17,857

***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***

May 30, 2007

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 the County of Knox, Maine as of and for the year ended December 31, 2006, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated May 30, 2007. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might 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 the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of County of Knox, Maine, in a separate letter dated May 30, 2007.

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

James W. Wadman

Certified Public Accountant

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

May 30, 2007

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, 2006. 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.

In our opinion, 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, 2006.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, 2006*

NONE

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2006

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. No reportable conditions relating to 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*.
3. No instances of noncompliance material to the financial statements of the County of Knox, Maine were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are 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*.
5. The auditor's report on compliance for the major federal award program for the County of Knox, Maine expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the County of Knox, Maine are reported in Part C of 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

NONE

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

NONE

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

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	121,001
Airport Improvements - Airport Security	20.106		103,259	68,840
Airport Improvements - Taxiway Part 139 Project	20.106		1,268,250	26,182
Airport Improvements - Environmental Assessment	20.106		171,000	94,391
Airport Improvements - Parallel Taxiway	20.106		261,250	143,006
Small Community Air Service	20.930		555,000	135,528
Total U.S. Department of Transportation			4,548,759	588,948
U.S. Department of Homeland Security 2004 Homeland Security Program	97.067		157,337	62,870
2005 Homeland Security Program	97.067		107,760	107,760
WMD Terrorism Training Grant	97.014		3,750	13
Hazmat Ops Training	97.020		26,085	10,995
Total U.S. Department of Homeland Security			294,932	181,638
U.S. Department of Health & Human Services Comprehensive Underage Drinking Grant	16.727		14,000	7,388
Pandemic Influenza Prevention Grant	93.069		10,000	1,671
Total U.S. Department of Homeland Security			24,000	9,059
U.S. Department of Justice 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			40,391	40,391
Total			4,908,082	820,036

***COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006***

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

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Independent Auditor's Communication of Reportable Conditions and Other Matters

May 30, 2007

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, 2006, 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 2006-1 and 2006-2 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 below are 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

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REPORTABLE CONDITIONS

2006-1 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 not 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. 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.

2006-2 Reconciling Accounts and Beginning Balances

The Counties interfund accounts were not reconciled throughout the year and beginning balances were not posted correctly. Failure to reconcile the interfund accounts allows errors to go undetected and results in inaccurate and incomplete financial records. Posting beginning balances incorrectly resulted in fund balance being overstated.

We recommend that the County's general ledger accounts be reconciled on a monthly basis and verify beginning balances agree with audited figures.

We recommend that management monitor this situation to ensure that reconciliations are completed in a timely manner.