

COUNTY OF KNOX, MAINE

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR
ENDED DECEMBER 31, 2007*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2007**

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COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2007

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INDEPENDENT AUDITOR'S REPORT

July 1, 2008

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, 2007, 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 of 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 the County of Knox, Maine as of December 31, 2007, 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 July 1, 2008 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 important for 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 the 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 the 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, 2007

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, 2007. 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, 2007 by \$18,115,706 (presented as “net assets”). Of this amount, \$2,087,859 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 \$2,332,154 (a 14.8 % increase) for the fiscal year ended December 31, 2007.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2007, the County's governmental funds reported a combined ending fund balance of \$2,837,525 with \$964,938 being general undesignated fund balance. This undesignated fund balance represents approximately 13.2% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations decreased by \$386,536 (31.2%) 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

86.3% of the County's net assets reflect 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 2007	Total 2006
Current Assets	3,654,115	3,160,284
Capital Assets	16,494,367	14,612,559
Total Assets	20,148,482	17,772,843
Current Liabilities	1,592,296	1,136,184
Other Liabilities	440,480	853,107
Total Liabilities	2,032,776	1,989,291
Net Assets:		
Invested in Capital Assets	15,641,260	13,372,916
Restricted	386,587	369,186
Unrestricted	2,087,859	2,041,450
Total Net Assets	18,115,706	15,783,552
Total Liabilities and Net Assets	20,148,482	17,772,843

Changes in Net Assets

Approximately 61.1 percent of the County's total revenue came from assessments, approximately 25.6 percent came from State subsidies and grants, and approximately 13.3 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$477,040 of the total expenditures for the fiscal year.

	Total 2007	Total 2006
Revenues:		
District Assessments	6,982,087	6,302,110
Intergovernmental Revenues	2,924,695	1,376,199
Departmental Revenues	1,016,587	863,210
Other Local Sources	501,389	540,221
Total	11,424,758	9,081,740
Expenses:		
Emergency Management Agency	95,108	136,676
District Attorney	354,689	343,379
County Commissioners	353,589	525,227
County Treasurer	147,480	128,131
Building Maintenance	326,008	310,400
Debt Service	142,630	148,041
County Jail	3,336,895	3,354,233
Registry of Deeds	269,227	283,173
Probate Court	180,332	180,942
Sheriff's Patrol	1,569,444	1,614,989
Dispatch	708,639	660,964
Capital Outlay	2,070	183,402
Airport	909,396	949,548
All Other	697,097	274,503
	9,092,604	9,093,608
Changes in Net Assets	2,332,154	(11,868)

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 \$2,837,525 a decrease of \$44,798 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 \$20,437,826 net of accumulated depreciation of \$3,943,459 leaving a net book value of \$16,494,367.

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, 2007

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	1,355,908
Investments	900,924
Accounts Receivable	102,560
Due from Other Governments	1,294,723
Capital Assets:	
Land	2,126,236
Other Capital Assets, Net of Depreciation	<u>14,368,131</u>
Total Assets	<u><u>20,148,482</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	582,709
Retainage Payable	89,455
Compensated Absences	344,558
Accrued Salaries	162,947
Long-term Liabilities:	
Due Within One Year	412,627
Due in More Than One Year	<u>440,480</u>
Total Liabilities	<u>2,032,776</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	15,641,260
Restricted Net Assets	386,587
Unrestricted	<u>2,087,859</u>
Total Net Assets	<u>18,115,706</u>
Total Liabilities and Net Assets	<u><u>20,148,482</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, 2007

Exhibit B

<i>Functions/Programs Primary Government</i>	<i>Net (Expense) Revenue and Changes in Net Assets</i>		
	<i>Program Revenues</i>	<i>Operating Grants</i>	<i>Total Governmental Activities</i>
<i>Governmental Activities</i>			
Emergency Management Agency	95,108	19,042	(74,614)
District Attorney	354,689	57,330	(297,359)
County Commissioners	353,589		(353,589)
County Treasurer	147,480		(108,546)
Building Maintenance	326,008		(270,329)
Debt Service	142,630		(142,630)
County Jail	3,336,895	511,221	(2,793,067)
Registry of Deeds	269,227		270,344
Probate Court	180,332		(82,694)
Sheriff's Patrol	1,569,444	19,597	(1,369,686)
Dispatch	708,639	19,197	39,869
Capital Outlay	2,070		(2,070)
Airport	909,396	375,890	(226,681)
All Other	697,097		(697,097)
<i>Total Governmental Activities</i>	<u>9,092,604</u>	<u>1,002,277</u>	<u>(6,108,149)</u>
<i>Total Primary Government</i>	<u>9,092,604</u>	<u>1,002,277</u>	<u>(6,108,149)</u>
<i>General Revenues:</i>			
Assessments			6,252,776
Airport Federal and State Grants for Capital Assets & Infrastructure			1,807,446
Emergency Management Federal Grant for Capital Assets			241,272
Other Local Sources			138,809
<i>Total Revenues, Special Items and Transfers</i>			<u>8,440,303</u>
<i>Changes in Net Assets</i>			<u>2,332,154</u>
<i>Net Assets - Beginning, as restated</i>			<u>15,783,552</u>
<i>Net Assets - Ending</i>			<u>18,115,706</u>

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

**COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

*Exhibit C
Page 1 of 2*

<i>Assets</i>	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Airport Taxiway Construction</i>	<i>Airport Taxiway Mitigation</i>	<i>Other Governmental Funds</i>	<i>Total</i>
Cash and Equivalents	1,079,122				276,786	1,355,908
Investments		853,415			47,509	900,924
Accounts Receivable	83,400				19,160	102,560
Due from Other Funds	1,230,544	612,604			152,020	1,995,168
Due from Other Governments			610,428	636,261	48,034	1,294,723
Total Assets	2,393,066	1,466,019	610,428	636,261	543,509	5,649,283
<i>Liabilities and Fund Balance</i>						
<i>Liabilities</i>						
Accounts Payable	535,998				46,711	582,709
Retainage Payable			89,455			89,455
Due to Other Funds	747,704	55,231	520,973	636,261	34,999	1,995,168
Deferred Revenues	144,426					144,426
Total Liabilities	1,428,128	55,231	610,428	636,261	81,710	2,811,758
<i>Fund Balances</i>						
Unreserved	964,938				120,450	1,085,388
Unreserved, Reported in Nonmajor Special Revenue Funds		1,410,788			341,349	1,752,137
Total Fund Balances	964,938	1,410,788			461,799	2,837,525
Total Liabilities and Fund Balances	2,393,066	1,466,019	610,428	636,261	543,509	5,649,283

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

*COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2007*

*Exhibit C
Page 2 of 2*

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

Total Fund Balance	2,837,525
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,943,459	<u>16,494,367</u>
	<u>16,494,367</u>
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Deferred Revenues - Other	<u>144,426</u>
	<u>144,426</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Bonds Payable	(853,107)
Accrued Salaries	(162,947)
Accrued Compensated Absences	<u>(344,558)</u>
	<u>(1,360,612)</u>
Net Assets of Governmental Activities	<u><u>18,115,706</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, 2007

Exhibit D
Page 1 of 2

	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Airport Taxiway Construction</i>	<i>Airport Taxiway Mitigation</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues						
Assessments	6,252,776				729,311	6,982,087
Intergovernmental Revenues	414,490		1,186,247	636,261	687,697	2,924,695
Departmental Revenues	872,161					872,161
Other Local Sources	41,101	92,143			368,145	501,389
Total Revenues	7,580,528	92,143	1,186,247	636,261	1,785,153	11,280,332
Expenditures						
Emergency Management Agency	94,219				221,844	316,063
District Attorney	274,718	3,904			69,200	347,822
County Commissioners	240,100	102,758				342,858
County Treasurer	142,460					142,460
Building Maintenance	328,042					328,042
Debt Service	529,166					529,166
County Jail	3,013,741	2,097			170,388	3,186,226
Registry of Deeds	242,183	22,439				264,622
Probate Court	178,111					178,111
Sheriff's Patrol	1,566,057	52,332				1,618,389
Dispatch		5,286			779,734	785,020
Airport		4,023	1,216,664	652,575	591,122	2,464,384
Capital Outlay		124,870				124,870
All Other	694,805				2,292	697,097
Total Expenditures	7,303,602	317,709	1,216,664	652,575	1,834,580	11,325,130
Excess of Revenues Over (Under) Expenditures	276,926	(225,566)	(30,417)	(16,314)	(49,427)	(44,798)
Other Financing Sources (Uses)						
Transfers from Other Funds	-	589,219	30,417	16,314	66,243	702,193
Transfers to Other Funds	(524,800)	(78,369)			(99,024)	(702,193)
Total Other Financing Sources (Uses)	(524,800)	510,850	30,417	16,314	(32,781)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(247,874)	285,284	-	-	(82,208)	(44,798)
Fund Balance - January 1	1,212,812	1,125,504			544,007	2,882,323
Fund Balance - December 31	964,938	1,410,788	-	-	461,799	2,837,525

(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, 2007**

**Exhibit D
Page 2 of 2**

Net change in fund balances - total governmental funds (44,798)

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	2,375,442
Capital asset dispositions	(16,594)
Depreciation expense	(477,040)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred Revenues	144,426
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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	386,536
--	---------

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	3,455
Accrued compensated absences	(39,273)

Change in net assets of governmental activities	<u>2,332,154</u>
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COUNTY OF KNOX
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2007

Exhibit E

	<u>Agency Fund</u>
	<u>Inmate Fund</u>
Assets	
Cash and Equivalents	<u>16,473</u>
Total Assets	<u><u>16,473</u></u>
Liabilities	
Due to Inmates	<u>16,473</u>
Total Liabilities	<u><u>16,473</u></u>

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

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007**

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, 2007

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 construction and the airport taxiway mitigation account for the major capital project funds.

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, 2007**

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, 2007

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 are 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, 2007**

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, 2007**

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 \$1,372,381 and the bank balance was \$1,679,734. 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>1,679,734</u>	<u>324,274</u>	<u>1,316,737</u>	<u>38,723</u>

Included in the County's cash equivalents at December 31, 2007, 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, 2007, 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>\$ 1,386,000</u>	4.07%	1/1/2008	SEC 343 FGPC	<u>\$ 1,383,145</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>900,924</u>	<u>900,924</u>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

C. Capital Assets

Capital asset activity for the year ended December 31, 2007 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	590,782		2,126,236
<i>Capital assets being depreciated</i>				
Buildings	5,810,546	58,800		5,869,346
Equipment	1,733,114	509,196	(44,279)	2,198,031
Infrastructure	9,027,549	1,216,664		10,244,213
<i>Total capital assets being depreciated</i>	16,571,209	1,784,660	(44,279)	18,311,590
<i>Less accumulated depreciation for</i>				
Buildings	1,921,568	117,372		2,038,940
Equipment	685,605	154,784	(27,685)	812,704
Infrastructure	886,931	204,884		1,091,815
<i>Total accumulated depreciation</i>	3,494,104	477,040	(27,685)	3,943,459
<i>Net capital assets being depreciated</i>	13,077,105	1,307,620	(16,594)	14,368,131
Governmental Activities Capital Assets, net	14,612,559	1,898,402	(16,594)	16,494,367

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

<u>Governmental Activities</u>	
Emergency Management	16,895
District Attorney	518
County Commissioners	5,442
County Treasurer	106
County Jail	130,610
Registry of Deeds	1,379
Sheriff's Patrol	76,790
Dispatch	1,235
Airport	244,065
Total Depreciation Expense - Governmental Activities	477,040

**COUNTY OF KNOX
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

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, 2007, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 6,607,558,000
Unorganized territories	13,983,000
	<hr/>
Total assessed valuation	6,621,541,000
Tax rate	<hr/> 0.0009444
Current tax commitment	<hr/> <u>\$ 6,253,383</u>
Appropriations	7,557,485
Overlay	122,615
	<hr/> 7,680,100
Less:	
Estimated revenues	<hr/> (1,426,717)
Current tax commitment	<hr/> <u>\$ 6,253,383</u>

E. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2007, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	1,230,544	747,704
Special Revenue Funds		
Reserve Funds	612,604	55,231
Airport Fund	9,488	
Grant Funds	95,968	2,271
DARE		
Dispatch Fund	46,564	
Capital Project Fund	<hr/>	<hr/> 1,189,962
Totals	<hr/> <u>1,995,168</u>	<hr/> <u>1,995,168</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, 2007**

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>853,107</u>

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$87,317 are as follows:

<i>Year Ended December 31,</i>	<i>General Obligation Debt</i>
2008	470,212
2009	470,212
Total	<u>940,424</u>

2. Changes in Long-Term Debt

The following summary of long-term debt transactions of Knox County for the year ended December 31, 2007:

<i>Long-term Debt payable January 1, 2007</i>	1,239,643
Debt Issued	
Debt Retired	<u>(386,536)</u>
<i>Long-term Debt payable December 31, 2007</i>	<u>853,107</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, 2007**

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 2005, 2006, and 2007.

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 \$135,983 and the participants have contributed \$75,563 for the year-ended December 31, 2007.

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, 2007**

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.

COUNTY OF KNOX
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	6,253,383	6,253,383	6,252,776	(607)
Intergovernmental Revenues	426,450	391,138	414,490	23,352
Departmental Revenues	818,479	818,479	872,161	53,682
Other Local Sources	17,100	17,100	41,101	24,001
Total Revenues	7,515,412	7,480,100	7,580,528	100,428
Expenditures				
Emergency Management Agency	96,983	96,983	94,219	2,764
District Attorney	278,521	274,721	274,718	3
County Commissioners	250,419	248,919	240,100	8,819
County Treasurer	143,231	141,231	142,460	(1,229)
Building Maintenance	356,363	354,363	328,042	26,321
Debt Service	520,212	520,212	529,166	(8,954)
County Jail	3,503,606	3,497,606	3,013,741	483,865
Registry of Deeds	243,353	243,353	242,183	1,170
Probate Court	185,588	184,588	178,111	6,477
Sheriff's Patrol	1,604,457	1,594,457	1,566,057	28,400
All Other	541,979	494,126	694,805	(200,679)
Total Expenditures	7,724,712	7,650,559	7,303,602	346,957
Excess Revenues Over Expenditures	(209,300)	(170,459)	276,926	447,385
Other Financing Sources (Uses)				
Transfers from Other Funds	26,300	-	-	-
Transfers to Other Funds	(17,000)	(29,541)	(524,800)	(507,800)
Total Other Financing Sources (Uses)	9,300	(29,541)	(524,800)	(507,800)
Excess of Revenues and Other Sources Over (Under) Expenditures	(200,000)	(200,000)	(247,874)	(47,874)
Unreserved Fund Balance - January 1			1,212,812	
Unreserved Fund Balance - December 31			964,938	

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	6,253,383	6,252,776	(607)
Intergovernmental Revenues			
Federal			
Emergency Management Agency	49,158	45,727	(3,431)
COPS Grant	17,480	19,197	1,717
Underage Drinking Grant		12,838	12,838
Wildlife Refuge Fees		3,297	3,297
State			
Jail Reimbursement	285,000	277,877	(7,123)
Jail Surcharge	14,000	17,631	3,631
Fuel Reimbursement	25,500	37,923	12,423
	<u>391,138</u>	<u>414,490</u>	<u>23,352</u>
Departmental Revenue			
Treasurer - Investment Income	20,000	38,934	18,934
Building Maintenance	58,275	55,679	(2,596)
Jail	6,800	1,639	(5,161)
Registry of Deeds	483,000	506,545	23,545
Probate Court	76,100	94,278	18,178
Sheriff	174,304	175,086	782
	<u>818,479</u>	<u>872,161</u>	<u>53,682</u>
Other Local Sources			
Miscellaneous	9,600	29,601	20,001
Reimburse Comp. Adm.	7,500	7,500	-
SS Incentive Payment		4,000	4,000
	<u>17,100</u>	<u>41,101</u>	<u>24,001</u>
Operating Transfers In			
Transfers from Reserves	-	-	-
Total Revenues and Transfers	7,480,100	<u>7,580,528</u>	<u>100,428</u>
Fund Balance Used			
to Calculate Assessments	<u>200,000</u>		
Total	<u>7,680,100</u>		

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

*Exhibit A-2
Page 1 of 2*

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Emergency Management Agency			
Personal Services	86,663	85,938	725
Contractual Services	7,350	6,009	1,341
Commodities	2,970	2,272	698
	<u>96,983</u>	<u>94,219</u>	<u>2,764</u>
District Attorney			
Personal Services	226,181	226,654	(473)
Contractual Services	40,023	39,567	456
Commodities	8,517	8,497	20
Capital Outlay			0
	<u>274,721</u>	<u>274,718</u>	<u>3</u>
County Commissioners			
Personal Services	191,290	189,690	1,600
Contractual Services	50,345	44,157	6,188
Commodities	7,284	6,253	1,031
	<u>248,919</u>	<u>240,100</u>	<u>8,819</u>
County Treasurer			
Personal Services	133,050	134,344	(1,294)
Contractual Services	4,593	4,479	114
Commodities	3,588	3,637	(49)
	<u>141,231</u>	<u>142,460</u>	<u>(1,229)</u>
Building Maintenance			
Personal Services	147,410	135,262	12,148
Contractual Services	106,913	95,724	11,189
Commodities	100,040	97,056	2,984
	<u>354,363</u>	<u>328,042</u>	<u>26,321</u>
Debt Service			
Principal	386,536	386,536	-
Interest - Long Term Debt	83,676	83,676	-
Interest - Tax Anticipation Note	50,000	58,954	(8,954)
	<u>520,212</u>	<u>529,166</u>	<u>(8,954)</u>
County Jail			
Personal Services	2,312,183	2,113,794	198,389
Contractual Services	783,344	602,465	180,879
Commodities	324,504	273,092	51,412
Capital Outlay	77,575	24,390	53,185
	<u>3,497,606</u>	<u>3,013,741</u>	<u>483,865</u>

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

*Exhibit A-2
Page 2 of 2*

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Registry of Deeds			
Personal Services	153,411	152,979	432
Contractual Services	84,249	83,859	390
Commodities	5,693	5,345	348
	<hr/> 243,353	<hr/> 242,183	<hr/> 1,170
Probate Court			
Personal Services	161,664	159,861	1,803
Contractual Services	18,536	15,660	2,876
Commodities	4,138	2,340	1,798
Capital Outlay	250	250	-
	<hr/> 184,588	<hr/> 178,111	<hr/> 6,477
Sheriff's Patrol			
Personal Services	1,249,284	1,262,076	(12,792)
Contractual Services	168,689	158,983	9,706
Commodities	68,934	67,216	1,718
Capital Outlay	107,550	77,782	29,768
	<hr/> 1,594,457	<hr/> 1,566,057	<hr/> 28,400
Other			
Knox-Lincoln Extension Service	51,589	51,589	-
Knox-Lincoln Soil & Water	18,306	18,306	-
EMDC	20,000	20,000	-
Time & Tide RC&D	3,500	3,500	-
Eastern Mid-Coast Regional Planning	2,500	2,500	-
Insurance	271,148	222,288	48,860
Postage Meter/Fax	4,468	1,622	2,846
Lawsuit Payment		375,000	(375,000)
Overlay	122,615		122,615
	<hr/> 494,126	<hr/> 694,805	<hr/> (200,679)
Transfers Out			
Airport Operating	17,000	17,000	-
DA Grant	12,541	12,541	-
Reserves		495,259	(495,259)
	<hr/> 29,541	<hr/> 524,800	<hr/> (495,259)
Total Appropriations	<hr/> 7,680,100	<hr/> 7,828,402	<hr/> (148,302)

**COUNTY OF KNOX
GENERAL FUND**

Exhibit A-3

**STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unreserved - Undesignated Fund Balance January 1, 2007	1,212,812	
Unreserved - Undesignated Fund Balance December 31, 2007	<u>964,938</u>	
Increase (Decrease)		<u><u>(247,874)</u></u>

Analysis of Change

Additions		
Budget Summary		
Revenue Surplus (Exhibit A-1)	100,428	
Unexpended (Overdraft) Balance of Appropriations (Exhibit A-2)	<u>(148,302)</u>	
Budget Surplus		<u>(47,874)</u>
Deductions		
Fund Balance Used to Calculate Assessments		<u>(200,000)</u>
Increase (Decrease)		<u><u>(247,874)</u></u>

COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2007

Exhibit B-1

Assets	Reserve Funds	Grant Funds (Exhibit B-3)	DARE Program	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Cash and Equivalents		173,356			103,430		276,786
Investments	853,415	34,248	13,261				900,924
Accounts Receivable				19,160			19,160
Due from Other Governments	612,604	15,306		9,489		46,564	15,306
Due from Other Funds		95,968					764,625
Total Assets	1,466,019	318,878	13,261	28,649	103,430	46,564	1,976,801

Liabilities and Fund Balances

Liabilities							
Accounts Payable		36,106			10,605		46,711
Due to Other Funds	55,231	2,271					57,502
Total Liabilities	55,231	38,377			10,605		104,213

Fund Balances
 Unreserved
 Designated for Subsequent Years'
 Expenditures
 Undesignated

	1,410,788	248,524			92,825		1,752,137
		31,977	13,261	28,649		46,564	120,451
Total Fund Balances	1,410,788	280,501	13,261	28,649	92,825	46,564	1,872,588

Total Liabilities and Fund Balances

Total Liabilities and Fund Balances	1,466,019	318,878	13,261	28,649	103,430	46,564	1,976,801
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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, 2007

	Reserve Funds (Exhibit B-5)	Grant Funds (Exhibit B-4)	DARE Program	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Revenues							
Intergovernmental Revenues							
Federal		467,252					467,252
State		74,075					74,075
Interest	41,489	23,375	531				65,395
Fair Value Increase (Decrease)	4,845	135	59				5,039
Other Local Sources	45,809	5,902	350	306,825	30,968	729,311	1,119,165
Total Revenues	92,143	570,739	940	306,825	30,968	729,311	1,730,926
Expenditures							
Personnel Services		126,267		166,692		612,440	905,399
Contract Services		326,938		72,198		156,704	555,840
Commodities		1,053		14,074		9,561	24,688
Capital Outlay		3,473		6,319		1,029	10,821
Maintenance and Supplies					18,214		18,214
Community Based Programs		143,248					143,248
Reserve Funds	317,709						317,709
Airport Monitoring/Permitting		22,771					22,771
Total Expenditures	317,709	623,750	-	259,283	18,214	779,734	1,998,690
Excess of Revenues Over (Under) Expenditures	(225,566)	(53,011)	940	47,542	12,754	(50,423)	(267,764)
Other Financing Sources (Uses)							
Transfers from Other Funds	589,219	26,900		32,115			648,234
Transfers to Other Funds	(78,369)	(15,115)		(73,409)		(10,500)	(177,393)
Total Other Financing Sources (Uses)	510,850	11,785		(41,294)		(10,500)	470,841
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	285,284	(41,226)	940	6,248	12,754	(60,923)	203,077
Fund Balance - January 1	1,125,504	321,727	12,321	22,401	80,071	107,487	1,669,511
Fund Balance - December 31	1,410,788	280,501	13,261	28,649	92,825	46,564	1,872,588

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2007

Exhibit B-3
 Page 1 of 2

<i>Assets</i>	<i>Victim/Witness Advocate Grant</i>	<i>Matching Grants Fund</i>	<i>Local Emergency Planning Committee</i>	<i>Airport Security</i>
Cash and Equivalents			33,537	
Investments		34,203		
Due from Other Governments				15,306
Due from Other Funds	1,618		9,366	43,581
Total Assets	1,618	34,203	42,903	58,887
<i>Liabilities and Fund Balances</i>				
<i>Liabilities</i>				
Accounts Payable				
Due to Other Funds		2,271		
Total Liabilities		2,271		
<i>Fund Balances</i>				
Unreserved				
Designated for Subsequent Years'				
Expenditures	1,618		42,903	58,887
Undesignated		31,932		
Total Fund Balances	1,618	31,932	42,903	58,887
Total Liabilities and Fund Balances	1,618	34,203	42,903	58,887

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2007

Exhibit B-3
 Page 2 of 2

<i>Assets</i>	<i>Airport Small Community Grant</i>	<i>Knox County Law Enforcement System</i>	<i>Community Based Projects</i>	<i>Totals</i>
Cash and Equivalents	51,772		88,047	173,356
Investments		45		34,248
Due from Other Governments				15,306
Due from Other Funds	15,553		25,850	95,968
Total Assets	67,325	45	113,897	318,878
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Deferred Revenue			36,106	36,106
Due to Other Funds				2,271
Total Liabilities			36,106	38,377
Fund Balances				
Unreserved				
Designated for Subsequent Years'				
Expenditures	67,325		77,791	248,524
Undesignated		45		31,977
Total Fund Balances	67,325	45	77,791	280,501
Total Liabilities and Fund Balances	67,325	45	113,897	318,878

COUNTY OF KNOX
GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Speed Enforcement	Victim/Witness Advocate Grant	Local Law Enforcement Grant	Matching Grants Fund	Local Emergency Planning Committee	Jane Fonda Grant
Revenues						
Intergovernmental Revenues						
Federal	3,708	45,493			211,799	
State					2,788	
Other		11,837		131		
Fair Value Increase (Decrease)						
Interest			1	1,243	1,452	
Total Revenues	3,708	57,330	1	1,374	216,039	
Expenditures						
Personnel Services	3,708	43,405			4,005	
Contract Services		3,007			217,839	21
Commodities		17	36			
Equipment				2,271		
Community Based Programs						
Other Governments		22,771				
Total Expenditures	3,708	69,200	36	2,271	221,844	21
Excess of Revenues Over (Under) Expenditures	-	(11,870)	(35)	(897)	(5,805)	(21)
Other Financing Sources (Uses)						
Transfers from Other Funds		12,541				
Transfers to Other funds						
Total Other Financing Sources (Uses)		12,541				
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses		671	(35)	(897)	(5,805)	(21)
Fund Balance - January 1		947	35	32,829	48,708	21
Fund Balance - December 31	-	1,618	-	31,932	42,903	-

COUNTY OF KNOX
GRANT FUNDS

Exhibit B-4
Page 2 of 2

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Airport Security	Airport Small Community Grant	Knox County Law Enforcement System	OUI Grant	Community Based Projects	Totals
Revenues						
Intergovernmental Revenues						
Federal	99,966	103,235		3,051		467,252
State					71,287	74,075
Other		10,473			1,065	23,375
Fair Value Increase (Decrease)			4			135
Interest		784	41		2,381	5,902
Total Revenues	99,966	114,492	45	3,051	74,733	570,739
Expenditures						
Personnel Services	72,098			3,051		126,267
Contract Services	2,209	102,933	929			326,938
Commodities	1,000					1,053
Equipment			1,202			3,473
Community Based Programs					143,248	143,248
Other Governments						22,771
Total Expenditures	75,307	102,933	2,131	3,051	143,248	623,750
Excess of Revenues Over (Under) Expenditures	24,659	11,559	(2,086)	-	(68,515)	(53,011)
Other Financing Sources (Uses)						
Transfers from Other Funds	(15,115)				14,359	26,900
Transfers to Other Funds						(15,115)
Total Other Financing Sources (Uses)	(15,115)	-			14,359	11,785
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	9,544	11,559	(2,086)		(54,156)	(41,226)
Fund Balance - January 1	49,343	55,766	2,131		131,947	321,727
Fund Balance - December 31	58,887	67,325	45	-	77,791	280,501

COUNTY OF KNOX
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	Fund Balance		New Funds	Transfers		Interest	Increase (Decrease) in Fair Value	Transfers To Other Funds	Expenditures	Fund Balance December 31
	January 1	January 31		From Other Funds	To Other Funds					
Contingency	11,215	94,218			362	46		(3,509)	102,332	
Courthouse Computer	79,215	75,000			2,223	284	(568)		101,035	
Courthouse Furniture/Fixtures	16,049				675	73		(1,407)	15,390	
Courthouse Maintenance	67,947				1,091	176		(63,852)	5,362	
Courthouse Renovation	2,368				60	8		(983)	1,453	
Criminal Investigation	1,586				68	7			1,661	
DA Computer	3,841	568			33	10		(3,904)	548	
Deeds Surcharge	79,094		33,026		3,653	396		(22,439)	93,730	
Dispatch Computer	5,645				148	22		(2,952)	2,863	
Dispatch GIS	11,097				475	53			11,625	
Dispatch Renovations	22,771				974	108			23,853	
Dispatch Miscellaneous	6,553				274	29		(2,334)	4,522	
Dispatch Reserve									10,500	
Forfeiture Money - Federal			928		236	416			25,421	
Forfeiture Money - State	138,185		5,075		4,853	166	(23,841)	(41,205)	83,233	
Health Insurance	11,536				527	71			37,134	
Jail Capital	15,594				632	94			48,935	
Jail Computer	14,990				627	69		(2,097)	13,589	
Jail Consultant		34,840							34,840	
Jail Control System	2,613				112	13			2,738	
Jail Heating System	5,577				239	26			5,842	
Jail Improvements	2,331				247	26			2,604	
Jail Vehicle	4,633			16,000	198	22			20,853	
Legal	133,021			150,000	4,060	459		(102,758)	184,782	
Meridian Line	619				26	3			648	
Probate Surcharge	4,052				230	26			7,668	
Resignation Benefits	12,727		3,360	20,000	545	60			33,332	
Safety	8,520				365	40			8,925	
Security Deposit	718				31	3			752	
Sheriff's Computer	13,964				517	53		(3,672)	10,862	
Sheriff's Laptop	12,518				469	50			13,037	
Sheriff's Vehicle	8,077				345	35		(7,455)	27,649	
Training	811			23,227	35	4			850	
Unemployment	15,020			10,000	644	72			25,736	
Airport Computer	8,363			4,000	323	37		(1,156)	11,567	
Airport MBNA Improvement	113,753			35,000	4,681	598			119,032	
Airport Miscellaneous Equipment	44,494			1,966	1,966	220	(49)	(2,867)	78,764	
Airport Parallel Taxiway	78,802			3,342	3,342	378	(49,767)		32,756	
Airport Part 139 Requirement	11,708			429	429	55	(3,438)		8,754	
Airport Projects	92,854			3,172	3,172	350	(706)		95,670	
Airport Terminal Building	62,643			34,409	2,602	287			99,941	
Total	1,125,504	589,219	45,809	41,489	4,845	(78,369)	(317,709)	1,410,788		

**COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2007**

Exhibit C-1

<i>Assets</i>	<i>Airport Taxiway Part 139 Project</i>	<i>Airport Taxiway Construction</i>	<i>Airport Taxiway Mitigation</i>	<i>Totals</i>
Due from Other Governments	32,728	610,428	636,261	1,279,417
Total Assets	32,728	610,428	636,261	1,279,417
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Retainage Payable		89,455		89,455
Due to Other Funds	32,728	520,973	636,261	1,189,962
Total Liabilities	32,728	610,428	636,261	1,279,417
Fund Balances				
Undesignated				
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	32,728	610,428	636,261	1,279,417

**COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Airport Taxiway Part 139 Project	Airport Environmental Assessment	Airport Snow Removal Equipment	Airport Parallel Taxiway	Airport Taxiway Construction	Airport Taxiway Mitigation	Totals
Revenues							
Intergovernmental Revenues							
Federal	2,091	25,185		115,341	1,155,831	619,947	1,918,395
State	55	663		3,035	30,416	16,314	50,483
Total Revenues	2,146	25,848	-	118,376	1,186,247	636,261	1,968,878
Expenditures							
Engineering Services	2,592	26,554		117,946	301,826	58,603	507,521
Construction				3,150	901,213		904,363
Land						590,782	590,782
All Other	2,992		49	316	13,625	3,190	20,172
Total Expenditures	5,584	26,554	49	121,412	1,216,664	652,575	2,022,838
Excess of Revenues Over (Under) Expenditures	(3,438)	(706)	(49)	(3,036)	(30,417)	(16,314)	(53,960)
Other Financing Sources (Uses) Transfers from Other Funds	3,438	706	49	3,036	30,417	16,314	53,960
Total Other Financing Sources (Uses)	3,438	706	49	3,036	30,417	16,314	53,960
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, 2007

	<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	17,857	85,542	86,926	16,473
<i>Liabilities</i>				
Due to Inmates	17,857	85,542	86,926	16,473

***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***

July 1, 2008

County Commissioners
County of Knox
Rockland, ME 04841

We have audited the 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, 2007, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated July 1, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Knox, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Knox, Maine's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County of Knox, Maine's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of County of Knox, Maine's financial statements that is more than inconsequential will not be prevented or detected by County of Knox, Maine's internal control.

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

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

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 July 1, 2008.

This report is intended solely for the information and use of 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**

July 1, 2008

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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of Knox, Maine's internal control over compliance.

A control deficiency is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is

a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The County of Knox, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County of Knox, Maine's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the 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, 2007

NONE

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the 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, 2007

SCHEDULE III
 Page 1 of 2

<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 - Taxiway Part 139 Project	20.106		1,268,250	5,584
Airport Improvements - Environmental Assessment	20.106		171,000	26,554
Airport Improvements - Snow Removal Equipment	20.106		322,000	49
Airport Improvements - Parallel Taxiway	20.106		275,000	121,412
Airport Improvements - Parallel Taxiway Construction	20.106		5,240,000	1,216,664
Airport Improvements - Parallel Taxiway Mitigation	20.106		681,000	652,575
Airport Improvements - Airport Security	20.106		103,259	90,422
Small Community Air Service	20.930		555,000	102,933
Total Federal Aviation Administration			8,615,509	2,216,193
Passed Through Maine Bureau of Highway Safety				
Speed Enforcement Grant	20.600	013-16A-3151-012-6401	4,970	3,708
OUI Grant	20.601	013-16A-308A-012-6401	4,970	3,051
Total Maine Bureau of Highway Safety			9,940	6,759
Total U.S. Department of Transportation			8,625,449	2,222,952
U.S. Department of Homeland Security				
2005 Homeland Security Program	97.067		200,000	92,240
2006 Homeland Security Program	97.067		64,000	64,000
NIMS	97.107		1,692	1,692
WMD Exercise Grant	97.006		64,000	64,000
Pre-Disaster Mitigation	97.047		20,000	738
EOC Enhancement	97.066		12,836	12,813
EOC Planner	97.066		23,020	29,195
Full Scale Exercise Grant	97.067		4,224	3,724
Hazmat Ops Training	97.020		25,845	10,125
Total U.S. Department of Homeland Security			415,617	278,527

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

SCHEDULE III
 Page 2 of 2

<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 Health & Human Services Pandemic Influenza Prevention Grant	93.069		10,000	2,303
Total U.S. Department of Homeland Security			10,000	2,303
U.S. Department of Justice Passed Through Maine Department of Human Services				
Underage Drinking	16.727	013-14G-1564-012-6401	20,500	8,202
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			60,891	48,593
Total			9,111,957	2,552,375

***COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007***

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.