

COUNTY OF KNOX

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR
ENDED DECEMBER 31, 2009*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2009**

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*COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2009*

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INDEPENDENT AUDITOR'S REPORT

June 1, 2010
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, 2009, 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, 2009, 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 June 1, 2010 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, 2009

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, 2009. 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, 2009 by \$23,561,198 (presented as “net assets”). Of this amount, \$2,594,706 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 \$329,261 (a 1.4 % increase) for the fiscal year ended December 31, 2009.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2009, the County's governmental funds reported a combined ending fund balance of \$3,163,985 with \$884,208 being general undesignated fund balance. This undesignated fund balance represents approximately 21% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations decreased by \$440,480 (100%) 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

88.5% 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 are 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 2009	Total 2008
Current Assets	3,395,577	4,337,602
Capital Assets	20,854,281	20,617,771
Total Assets	24,249,858	24,955,373
Current Liabilities	688,660	1,723,436
Other Liabilities		
Total Liabilities	688,660	1,723,436
Net Assets:		
Invested in Capital Assets	20,854,281	20,177,291
Restricted	112,211	203,721
Unrestricted	2,594,706	2,850,925
Total Net Assets	23,561,198	23,231,937
Total Liabilities and Net Assets	24,249,858	24,955,373

Changes in Net Assets

Approximately 71.3 percent of the County's total revenue came from assessments, approximately 15.9 percent came from State subsidies and grants, and approximately 12.8 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$650,826 of the total expenditures for the fiscal year.

	Total 2009	Total 2008
Revenues:		
District Assessments	7,366,140	7,383,598
Intergovernmental Revenues	1,642,401	5,185,418
Departmental Revenues	840,460	812,936
Other Local Sources	477,499	530,708
Total	10,326,500	13,912,660
Expenses:		
Emergency Management Agency	199,183	172,082
District Attorney	385,954	352,056
County Commissioners	515,726	500,488
County Treasurer	175,590	160,156
Building Maintenance	396,609	333,636
Debt Service	42,475	109,616
County Jail	3,712,576	3,277,639
Registry of Deeds	356,257	286,652
Probate Court	197,822	179,966
Sheriff's Patrol	1,717,468	1,469,661
Dispatch	790,879	723,053
Capital Outlay	39,687	49,474
Airport	1,209,100	852,356
Loss on Sale of Assets	7,772	
All Other	250,141	329,595
	9,997,239	8,796,430
Changes in Net Assets	329,261	5,116,230

FINANCIAL ANALYSIS OF THE COUNTY'S INDIVIDUAL FUNDS

Governmental Funds

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

At the end of the fiscal year, the County's governmental funds reported ending fund balances of \$3,163,985 a decrease of \$165,697 in comparison with the prior year. 34% 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 \$25,978,053 net of accumulated depreciation of \$5,123,772 leaving a net book value of \$20,854,281.

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, 2009

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	546,246
Investments	1,991,464
Accounts Receivable	91,514
Prepaid Expenditures	7,347
Due from Other Governments	759,006
Capital Assets:	
Land	2,126,236
Other Capital Assets, Net of Depreciation	<u>18,728,045</u>
Total Assets	<u><u>24,249,858</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	55,392
Compensated Absences	<u>633,268</u>
Total Liabilities	<u>688,660</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	20,854,281
Restricted Net Assets	112,211
Unrestricted	<u>2,594,706</u>
Total Net Assets	<u>23,561,198</u>
Total Liabilities and Net Assets	<u><u>24,249,858</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, 2009

Exhibit B

Functions/Programs Primary Government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Total
	Fees, Fines, and Charges for Services	Operating Grants	Governmental Activities	
<u>Governmental Activities</u>				
Emergency Management Agency	199,183	127	69,592	(129,464)
District Attorney	385,954	13,812	46,038	(326,104)
County Commissioners	515,726			(515,726)
County Treasurer	175,590	1,680		(173,910)
Building Maintenance	396,609	59,714		(336,895)
Debt Service	42,475			(42,475)
County Jail	3,712,576	66,918	460,645	(3,185,013)
Registry of Deeds	356,257	443,538		87,281
Probate Court	197,822	91,412		(106,410)
Sheriff's Patrol	1,717,468	306,578	19,299	(1,391,591)
Dispatch	790,879	789,384		(1,495)
Capital Outlay	39,687			(39,687)
Airport	1,209,100	279,250	88,892	(840,958)
All Other	250,141			(250,141)
<u>Total Governmental Activities</u>	<u>9,989,467</u>	<u>2,052,413</u>	<u>684,466</u>	<u>(7,252,588)</u>
<u>Total Primary Government</u>	<u>9,989,467</u>	<u>2,052,413</u>	<u>684,466</u>	<u>(7,252,588)</u>
<u>General Revenues:</u>				
Assessments				6,576,756
Airport Federal and State Grants for Capital Assets & Infrastructure				644,294
Emergency Management Federal Grant for Capital Assets				298,591
Gain/(Loss) on Sale of Assets				(7,772)
Other Local Sources				69,980
<u>Total Revenues, Special Items and Transfers</u>				<u>7,581,849</u>
<u>Changes in Net Assets</u>				<u>329,261</u>
<u>Net Assets - Beginning</u>				<u>23,231,937</u>
<u>Net Assets - Ending</u>				<u>23,561,198</u>

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2009

Exhibit C
Page 1 of 2

Assets	General Fund	Reserve Funds	Airport Taxiway Construction	Jail Fund	Governmental Funds	Other Funds	Total
Cash and Equivalents	331,619					214,627	546,246
Investments		1,946,108				45,356	1,991,464
Accounts Receivable	55,420					36,094	91,514
Prepaid Expenditures		7,347					7,347
Due from Other Funds	1,033,905	7,089		307,519		106,974	1,455,487
Due from Other Governments			613,935			145,071	759,006
Total Assets	1,420,944	1,960,544	613,935	307,519	548,122	4,851,064	
Liabilities and Fund Balance							
Liabilities							
Accounts Payable	53,090					2,302	55,392
Due to Other Funds	483,646	166,049	613,935			191,857	1,455,487
Deferred Revenues				176,200			176,200
Total Liabilities	536,736	166,049	613,935	176,200		194,159	1,687,079
Fund Balances							
Unreserved	884,208			131,319		67,683	1,083,210
Unreserved, Reported in Nonmajor Special Revenue Funds		1,794,495				286,280	2,080,775
Total Fund Balances	884,208	1,794,495		131,319		353,963	3,163,985
Total Liabilities and Fund Balances	1,420,944	1,960,544	613,935	307,519	548,122	4,851,064	

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2009

Exhibit C
Page 2 of 2

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

Total Fund Balance	3,163,985
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$5,123,772	<u>20,854,281</u>
	<u>20,854,281</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>176,200</u>
	<u>176,200</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued Compensated Absences	<u>(633,268)</u>
	<u>(633,268)</u>
Net Assets of Governmental Activities	<u><u>23,561,198</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, 2009**

Exhibit D
Page 1 of 2

	General Fund	Reserve Funds	Airport Taxway Construction	Jail Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Assessments	6,576,756				789,384	7,366,140
Intergovernmental Revenues	122,279		127,326	392,744	1,000,052	1,642,401
Departmental Revenues	808,812					808,812
Other Local Sources	20,351	110,600		20,888	325,660	477,499
Total Revenues	7,528,198	110,600	127,326	413,632	2,115,096	10,294,852
Expenditures						
Emergency Management Agency	131,129				309,390	440,519
District Attorney	299,180				75,191	374,371
County Commissioners	410,515	89,660				500,175
County Treasurer	168,260					168,260
Building Maintenance	480,756					480,756
Debt Service	482,955					482,955
County Jail		6,835		3,479,873	8,519	3,495,227
Registry of Deeds	250,698	97,308				348,006
Probate Court	195,544					195,544
Sheriff's Patrol	1,507,798	76,702			14,634	1,599,134
Dispatch		128,076			779,579	907,655
Airport		3,664	144,720		1,029,735	1,178,119
Capital Outlay		39,687				39,687
All Other	250,141				-	250,141
Total Expenditures	4,176,976	441,932	144,720	3,479,873	2,217,048	10,460,549
Excess of Revenues Over (Under) Expenditures	3,351,222	(331,332)	(17,394)	(3,066,241)	(101,952)	(165,697)
Other Financing Sources (Uses)						
Transfers from Other Funds	48,443	965,205	17,394	3,197,560	176,947	4,405,549
Transfers to Other Funds	(3,826,090)	(388,881)			(190,578)	(4,405,549)
Total Other Financing Sources (Uses)	(3,777,647)	576,324	17,394	3,197,560	(13,631)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(426,425)	244,992	-	131,319	(115,583)	(165,697)
Fund Balance - January 1	1,310,633	1,549,503			469,546	3,329,682
Fund Balance - December 31	884,208	1,794,495	-	131,319	353,963	3,163,985

(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, 2009

Exhibit D
Page 2 of 2

Net change in fund balances - total governmental funds (165,697)

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	895,108
Capital asset dispositions	(7,772)
Depreciation expense	(650,826)

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

Deferred Revenues	31,648
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Bond proceeds provided 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	440,480
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued compensated absences	(213,680)
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Change in net assets of governmental activities	<u><u>329,261</u></u>
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COUNTY OF KNOX
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2009

Exhibit E

	<u>Agency Fund</u>
	<u>Inmate Fund</u>
<i>Assets</i>	
Cash and Equivalents	<u>12,469</u>
<i>Total Assets</i>	<u><u>12,469</u></u>
<i>Liabilities</i>	
Due to Inmates	<u>12,469</u>
<i>Total Liabilities</i>	<u><u>12,469</u></u>

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

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 airport, jail, sheriff, 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.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, 2009**

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 County funds designated for a specified purpose.

The airport taxiway construction accounts for the major capital project funds.

The jail fund accounts for all jail activity for the County.

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.

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, 2009

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, 2009**

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, 2009

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 \$558,715 and the bank balance was \$757,938. 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>757,938</u>	<u>293,807</u>	<u>464,131</u>	<u>-</u>

Included in the County's cash equivalents at December 31, 2009, were FHLB letter of credit amounts issued by a local banking institution. Under these agreements, the County can draw down on the letter of credit up to a maximum of \$3,000,000. The agreement is guaranteed/collateralized with securities held by the banking institution which equal 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.

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>1,991,464</u>	<u>1,991,464</u>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

C. Capital Assets

Capital asset activity for the year ended December 31, 2009 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	2,126,236			2,126,236
<i>Capital assets being depreciated</i>				
Buildings	5,869,346	105,983		5,975,329
Equipment	2,402,608	523,587	(9,326)	2,916,869
Infrastructure	14,694,081	265,538		14,959,619
<i>Total capital assets being depreciated</i>	22,966,035	895,108	(9,326)	23,851,817
<i>Less accumulated depreciation for</i>				
Buildings	2,156,409	118,572		2,274,981
Equipment	932,394	223,396	(1,554)	1,154,236
Infrastructure	1,385,697	308,858		1,694,555
<i>Total accumulated depreciation</i>	4,474,500	650,826	(1,554)	5,123,772
<i>Net capital assets being depreciated</i>	18,491,535	244,282	(7,772)	18,728,045
<i>Governmental Activities Capital Assets, net</i>	20,617,771	244,282	(7,772)	20,854,281

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

Governmental Activities

Emergency Management	60,659
District Attorney	518
County Commissioners	5,800
County Treasurer	106
County Jail	137,294
Registry of Deeds	1,379
Sheriff's Patrol	97,748
Dispatch	3,365
Airport	343,957
	<hr/>
Total Depreciation Expense - Governmental Activities	<u>650,826</u>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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, 2009, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 7,512,100,000
Unorganized territories	<u>18,500,000</u>
Total assessed valuation	7,530,600,000
Tax rate	<u>0.0008733</u>
Current tax commitment	<u>\$ 6,576,756</u>
Appropriations	7,958,091
Overlay	<u>128,956</u>
	8,087,047
Less:	
Estimated revenues	<u>(1,510,291)</u>
Current tax commitment	<u>\$ 6,576,756</u>

E. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2009, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	1,033,905	483,646
Special Revenue Funds		
Reserve Funds	7,089	166,049
Jail Fund	307,519	
Airport Fund		34,131
Grant Funds	62,088	6,310
Dispatch Fund	44,886	
Capital Project Fund	<u> </u>	<u>765,351</u>
Totals	<u>1,455,487</u>	<u>1,455,487</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, 2009**

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

F. Long-Term Debt

1. Changes in Long-Term Debt

The following summary of long-term debt transactions of Knox County for the year ended December 31, 2009:

Long-term Debt payable January 1, 2009	440,480
Debt Issued	
Debt Retired	(440,480)
Long-term Debt payable December 31, 2009	<u><u>-</u></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.

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 year 2007, and an unfunded liability of \$15,000 for 2008, and an unfunded liability of \$79,944 for 2009.

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).

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans (Continued)

Participants vesting requirements are fulfilled at 5 years of service. The County has contributed \$165,283 and the participants have contributed \$76,801 for the year-ended December 31, 2009.

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.

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.

*COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009*

NOTE 4 - OTHER INFORMATION (Continued)

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, 2009

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	6,576,756	6,576,756	6,576,756	-
Intergovernmental Revenues	101,307	101,307	122,279	20,972
Departmental Revenues	1,194,953	791,902	808,812	16,910
Other Local Sources	14,500	14,500	20,351	5,851
Total Revenues	7,887,516	7,484,465	7,528,198	43,733
Expenditures				
Emergency Management Agency	101,641	101,641	131,129	(29,488)
District Attorney	356,261	313,561	299,180	14,381
County Commissioners	410,968	410,968	410,515	453
County Treasurer	169,885	169,885	168,260	1,625
Building Maintenance	502,505	502,505	480,756	21,749
Debt Service	520,212	520,212	482,955	37,257
Registry of Deeds	260,016	255,016	250,698	4,318
Probate Court	200,474	200,474	195,544	4,930
Sheriff's Patrol	1,572,213	1,572,213	1,507,798	64,415
All Other	409,892	409,892	250,141	159,751
Total Expenditures	4,504,067	4,456,367	4,176,976	279,391
Excess Revenues Over Expenditures	3,383,449	3,028,098	3,351,222	323,124
Other Financing Sources (Uses)				
Transfers from Other Funds	-	8,860	48,443	39,583
Transfers to Other Funds	(10,000)	(3,236,489)	(3,826,090)	(3,816,090)
Total Other Financing Sources (Uses)	(10,000)	(3,227,629)	(3,777,647)	(3,776,507)
Excess of Revenues and Other Sources Over (Under) Expenditures	3,373,449	(199,531)	(426,425)	(3,799,874)
Unreserved Fund Balance - January 1			1,310,633	
Unreserved Fund Balance - December 31			884,208	

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2009

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	6,576,756	6,576,756	-
Intergovernmental Revenues			
Federal			
Emergency Management Agency	50,821	69,592	18,771
Wildlife Refuge Fees		2,534	2,534
State			
Fuel Reimbursement	50,486	50,153	(333)
	<u>101,307</u>	<u>122,279</u>	<u>20,972</u>
Departmental Revenue			
Treasurer - Investment Income	12,000	1,680	(10,320)
District Attorney	15,200	13,812	(1,388)
Building Maintenance	62,721	59,714	(3,007)
Registry of Deeds	420,000	411,402	(8,598)
Probate Court	83,600	88,402	4,802
Sheriff	198,381	233,802	35,421
	<u>791,902</u>	<u>808,812</u>	<u>16,910</u>
Other Local Sources			
Miscellaneous	14,500	20,351	5,851
	<u>14,500</u>	<u>20,351</u>	<u>5,851</u>
Operating Transfers In			
Transfers from Grants		36,584	36,584
Transfers from Reserves	8,860	11,859	2,999
	<u>8,860</u>	<u>48,443</u>	<u>39,583</u>
Total Revenues and Transfers	7,493,325	<u><u>7,576,641</u></u>	<u><u>83,316</u></u>
Fund Balance Used to Calculate Assessments	<u>199,531</u>		
Total	<u><u>7,692,856</u></u>		

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2009**

*Exhibit A-2
Page 1 of 2*

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Emergency Management Agency			
Personal Services	87,800	83,805	3,995
Contractual Services	8,721	42,388	(33,667)
Commodities	3,136	2,952	184
Capital Outlay	1,984	1,984	-
	101,641	131,129	(29,488)
District Attorney			
Personal Services	257,734	255,762	1,972
Contractual Services	41,900	30,283	11,617
Commodities	9,127	9,111	16
Capital Outlay	4,800	4,024	776
	313,561	299,180	14,381
County Commissioners			
Personal Services	326,834	326,829	5
Contractual Services	77,544	77,099	445
Commodities	6,590	6,587	3
	410,968	410,515	453
County Treasurer			
Personal Services	159,787	158,650	1,137
Contractual Services	6,651	6,346	305
Commodities	3,447	3,264	183
	169,885	168,260	1,625
Building Maintenance			
Personal Services	151,199	146,885	4,314
Contractual Services	112,657	97,500	15,157
Commodities	128,342	126,065	2,277
Capital Outlay	110,307	110,306	1
	502,505	480,756	21,749
Debt Service			
Principal	440,480	440,480	-
Interest - Long Term Debt	29,732	29,732	-
Interest - Tax Anticipation Note	50,000	12,743	37,257
	520,212	482,955	37,257

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

Exhibit A-2
Page 2 of 2

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Registry of Deeds			
Personal Services	168,816	166,539	2,277
Contractual Services	81,100	79,510	1,590
Commodities	5,100	4,649	451
	<hr/> 255,016	<hr/> 250,698	<hr/> 4,318
Probate Court			
Personal Services	174,249	173,442	807
Contractual Services	20,713	17,281	3,432
Commodities	4,062	3,568	494
Capital Outlay	1,450	1,253	197
	<hr/> 200,474	<hr/> 195,544	<hr/> 4,930
Sheriff's Patrol			
Personal Services	1,303,376	1,279,494	23,882
Contractual Services	153,444	141,745	11,699
Commodities	53,193	51,431	1,762
Capital Outlay	62,200	35,128	27,072
	<hr/> 1,572,213	<hr/> 1,507,798	<hr/> 64,415
Other			
Knox-Lincoln Extension Service	54,570	54,570	-
Knox-Lincoln Soil & Water	19,421	19,421	-
EMDC	20,000	20,000	-
Time and Tide RC&D	3,670	3,670	-
Mid Coast Regional Planning	2,500	2,500	-
Insurance	180,775	149,980	30,795
Overlay	128,956		128,956
	<hr/> 409,892	<hr/> 250,141	<hr/> 159,751
Transfers Out			
Airport Operating	10,000	10,000	-
DA Grant	23,929	23,929	-
Jail	3,197,560	3,197,560	-
Reserves	5,000	594,601	(589,601)
	<hr/> 3,236,489	<hr/> 3,826,090	<hr/> (589,601)
Total Appropriations	<hr/> 7,692,856	<hr/> 8,003,066	<hr/> (310,210)

GENERAL FUND

STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2009

Unreserved - Undesignated Fund Balance January 1, 2009	1,310,633	
Unreserved - Undesignated Fund Balance December 31, 2009	<u>884,208</u>	
Increase (Decrease)		<u><u>(426,425)</u></u>

Analysis of Change

Additions

Budget Summary

Revenue Surplus (Exhibit A-1)

83,316

Unexpended (Overdraft) Balance of
Appropriations (Exhibit A-2)

(310,210)

Budget Surplus (Deficit)

(226,894)

Deductions

Fund Balance Used

to Calculate Assessments

(199,531)

Increase (Decrease)

(426,425)

COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2009

Exhibit B-1

Assets	Reserve Funds	Grant Funds (Exhibit B-3)	Jail Fund	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Cash and Equivalents		38,256			176,371		214,627
Investments	1,946,108	45,356					1,991,464
Accounts Receivable				36,094			36,094
Due from Other Governments		6,310					6,310
Prepaid Expense	7,347						7,347
Due from Other Funds	7,089	62,088	307,519			44,886	421,582
Total Assets	1,960,544	152,010	307,519	36,094	176,371	44,886	2,677,424
Liabilities and Fund Balances							
Liabilities							
Accounts Payable					2,302		2,302
Deferred Revenues			176,200				176,200
Due to Other Funds	166,049	6,310		34,131			206,490
Total Liabilities	166,049	6,310	176,200	34,131	2,302		384,992
Fund Balances							
Unreserved							
Designated for Subsequent Years'							
Expenditures	1,794,495	112,211			174,069		2,080,775
Undesignated		33,489	131,319	1,963		44,886	211,657
Total Fund Balances	1,794,495	145,700	131,319	1,963	174,069	44,886	2,292,432
Total Liabilities and Fund Balances	1,960,544	152,010	307,519	36,094	176,371	44,886	2,677,424

Exhibit B-2

COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Reserve Funds (Exhibit B-5)	Grant Funds (Exhibit B-4)	Jail Fund	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Revenues							
Intergovernmental Revenues							
Federal		440,982					440,982
State		42,102	392,744				434,846
Interest	42,651	2,055					44,706
Fair Value Increase (Decrease)	(46,555)	(1,132)					(47,687)
Other Local Sources	114,504	6,039	20,888	272,668	46,030	789,384	1,249,513
Total Revenues	110,600	490,046	413,632	272,668	46,030	789,384	2,122,360
Expenditures							
Personnel Services		145,679	2,367,407	181,524		674,149	3,368,759
Contract Services		336,906	785,356	76,046		83,440	1,281,748
Commodities		3,343	327,110	17,973		5,215	353,641
Capital Outlay						16,775	16,775
Maintenance and Supplies					8,519		8,519
Reserve Funds	441,932						441,932
Total Expenditures	441,932	485,928	3,479,873	275,543	8,519	779,579	5,471,374
Excess of Revenues Over (Under) Expenditures	(331,332)	4,118	(3,066,241)	(2,875)	37,511	9,805	(3,349,014)
Other Financing Sources (Uses)							
Transfers from Other Funds	965,205	29,091	3,197,560	10,000			4,201,856
Transfers to Other Funds	(388,881)	(155,416)		(5,162)		(30,000)	(579,459)
Total Other Financing Sources (Uses)	576,324	(126,325)	3,197,560	4,838		(30,000)	3,622,397
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	244,992	(122,207)	131,319	1,963	37,511	(20,195)	273,383
Fund Balance - January 1	1,549,503	267,907			136,558	65,081	2,019,049
Fund Balance - December 31	1,794,495	145,700	131,319	1,963	174,069	44,886	2,292,432

**COUNTY OF KNOX
GRANT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009**

*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>	<i>Speed Enforcement Grant</i>
Cash and Equivalents			38,256		
Investments		33,489			
Due from Other Governments			2,293		4,017
Due from Other Funds	2,270			56,256	
Total Assets	2,270	33,489	40,549	56,256	4,017
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Due to Other Funds			2,293		4,017
Total Liabilities			2,293		4,017
 Fund Balances					
Unreserved					
Designated for Subsequent Years' Expenditures	2,270		38,256	56,256	
Undesignated		33,489			
Total Fund Balances	2,270	33,489	38,256	56,256	
Total Liabilities and Fund Balances	2,270	33,489	40,549	56,256	4,017

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2009

Exhibit B-3
 Page 2 of 2

<i>Assets</i>	<i>Underage Drinking Grant</i>	<i>KCCHC Grant</i>	<i>DARE Program</i>	<i>Totals</i>
Cash and Equivalents				38,256
Investments			11,867	45,356
Due from Other Governments				6,310
Due from Other Funds	1,382	2,180		62,088
Total Assets	1,382	2,180	11,867	152,010
 <i>Liabilities and Fund Balances</i>				
<i>Liabilities</i>				
Due to Other Funds				6,310
Total Liabilities				6,310
 <i>Fund Balances</i>				
Unreserved				
Designated for Subsequent Years'				
Expenditures	1,382	2,180	11,867	112,211
Undesignated				33,489
Total Fund Balances	1,382	2,180	11,867	145,700
Total Liabilities and Fund Balances	1,382	2,180	11,867	152,010

COUNTY OF KNOX
GRANT FUNDS

Exhibit B-4
Page 1 of 3

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Victim/Witness Advocate Grant	Matching Grants Fund	Local Emergency Planning Committee	Airport Security	Speed Enforcement Grant
Revenues					
Intergovernmental Revenues					
Federal	46,038		292,742	88,739	4,017
State			5,849		
Other				153	
Fair Value Increase (Decrease)		(809)			
Interest		924	127		
Total Revenues	46,038	115	298,718	88,892	4,017
Expenditures					
Personnel Services	42,577		5,385	84,156	4,017
Contract Services	149		301,829	2,463	
Commodities				94	
Other Governments	32,465				
Total Expenditures	75,191		307,214	86,713	4,017
Excess of Revenues Over (Under) Expenditures	(29,153)	115	(8,496)	2,179	-
Other Financing Sources (Uses)					
Transfers from Other Funds	23,929			5,162	
Transfers to Other funds					
Total Other Financing Sources (Uses)	23,929			5,162	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(5,224)	115	(8,496)	7,341	-
Fund Balance - January 1	7,494	33,374	46,752	48,915	
Fund Balance - December 31	2,270	33,489	38,256	56,256	-

COUNTY OF KNOX
GRANT FUNDS

Exhibit B-4
Page 2 of 3

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

	OUI Grant	Seat Belt Grant	Underage Drinking Grant	KCCHC Grant	EMPC Local Capacity Grant
Revenues					
Intergovernmental Revenues					
Federal	4,712	2,000	2,000		
State					
Other				3,660	2,176
Fair Value Increase (Decrease)					
Interest					
Total Revenues	4,712	2,000	2,000	3,660	2,176
Expenditures					
Personnel Services	4,712	2,000	618	1,480	2,176
Contract Services					
Commodities					
Other Governments					
Total Expenditures	4,712	2,000	618	1,480	2,176
Excess of Revenues Over (Under) Expenditures	-	-	1,382	2,180	-
Other Financing Sources (Uses)					
Transfers from Other Funds					
Transfers to Other Funds					
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	1,382	2,180	-
Fund Balance - January 1					
Fund Balance - December 31	-	-	1,382	2,180	-

COUNTY OF KNOX
GRANT FUNDS

Exhibit B-4
Page 3 of 3

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	Airport Small Community Grant	Knox County Law Enforcement System	DARE Program	Community Based Projects	JAG Grant	Totals
Revenues						
Intergovernmental Revenues						
Federal				36,253	734	440,982
State				50		42,102
Other						6,039
Fair Value Increase (Decrease)		(1)	(322)			(1,132)
Interest	146	1	345	512		2,055
Total Revenues	146	-	23	36,815	734	490,046
Expenditures						
Personnel Services					734	145,679
Contract Services						304,441
Commodities			1,073			3,343
Other Governments						32,465
Total Expenditures	-	-	1,073	-	734	485,928
Excess of Revenues Over (Under) Expenditures	146	-	(1,050)	36,815	-	4,118
Other Financing Sources (Uses)						
Transfers from Other Funds	(64,648)	(47)		(90,721)		29,091
Transfers to Other Funds						(155,416)
Total Other Financing Sources (Uses)	(64,648)	(47)	-	(90,721)	-	(126,325)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(64,502)	(47)	(1,050)	(53,906)		(122,207)
Fund Balance - January 1	64,502	47	12,917	53,906		267,907
Fund Balance - December 31	-	-	11,867	-	-	145,700

COUNTY OF KNOX
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2009

	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
<i>Reserve Fund</i>	105,886			2,887	(2,794)		(3,739)	102,240
Contingency	60,588		17,500	1,264	(1,332)		(35,948)	42,072
Courthouse Computer	12,468			344	(332)			12,480
Courthouse Furniture/Fixtures	3,929		20,668	146	(257)			24,486
Courthouse Maintenance	10,603			255	(190)	(10,668)		-
Criminal Investigation	1,735			42	(25)	(1,752)		-
DA Computer	569			7	(12)	(564)		-
Deeds Surcharge	84,852	32,136	5,000	1,830	(1,746)		(97,308)	24,764
Dispatch Computer	11,985			225	(238)		(3,481)	8,491
Dispatch GIS	3,802			71	(56)	(3,817)		-
Dispatch Renovations	81,698		49,506	2,097	(1,540)		(124,595)	7,166
Dispatch Miscellaneous	4,723			90	(84)	(4,729)		-
Dispatch Reserve	10,948			207	(195)	(10,960)		-
EMA Disaster Fund	2,543		5,000	71	(97)			7,517
Forfeiture Money - Federal	22,251	65,191		236	(891)	(21,824)		64,963
Forfeiture Money - State	102,180	7,585	21,824	2,375	(2,448)		(57,266)	74,250
Health Insurance	38,692			1,070	(1,033)			38,729
Jail Capital	93,106		11,813	2,154	(2,156)	(9,614)		95,303
Jail Computer	20,283			416	(481)		(5,880)	14,338
Jail Consultant	35,283			975	(943)			35,315
Jail Control System	2,860			9	(64)	(2,805)		-
Jail Heating System	6,102			51	(98)	(6,055)		-
Jail Improvements	3,080		9,614	299	(225)	(11,813)		-
Jail Training	7,629			212	(206)			7,635
Jail Vehicle	8,886			247	(233)			8,900
Knox County Building	148,045			4,111	(3,997)			148,159
Legal	157,604		54,185	4,499	(4,123)		(89,660)	122,505
Meridian Line	677			17	(11)	(683)		-
Probate Surcharge	11,407	3,010		337	(328)			14,426
Resignation Benefits	34,779			963	(923)			34,819
Safety	12,375			342	(323)			12,394
Security Deposit	786			21	(20)			787
Sheriff's Computer	15,963		13,712	490	(544)			29,621
Sheriff's Laptop	13,618			329	(235)	(13,712)		-
Sheriff's Vehicle	52,848		57,101	1,180	(1,625)		(18,566)	90,938
Training	887			3	(20)		(870)	-
Unemployment	26,864		500,000	743	(711)			26,896
Airport	17,162			273	(3,785)			496,488
Airport Computer	70,473			464	(433)			13,853
Airport MBNA Improvement	87,914			229	(2,176)	(68,526)		-
Airport Miscellaneous Equipment	96,161	6,582		2,537	(2,412)	(1,474)		93,147
Airport Projects	65,259		133,175	4,256	(3,194)	(88,261)	(324)	141,813
Airport Terminal Building			66,107	4,277	(4,019)	(131,624)		-
Total	1,549,503	114,504	965,205	42,651	(46,555)	(388,881)	(441,932)	1,794,495

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2009

<i>Assets</i>	<i>Airport Taxiway Construction</i>	<i>Airport Snow Removal Equipment</i>	<i>Airport RSA/Wildlife Study</i>	<i>Airport Terminal Study Bus. Plan</i>
Due from Other Governments	613,935	80,891	14,622	10,946
Total Assets	613,935	80,891	14,622	10,946
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Retainage Payable Due to Other Funds	613,935	93,546	14,622	10,946
Total Liabilities	613,935	93,546	14,622	10,946
Fund Balances				
Undesignated		(12,655)		
Total Fund Balances	-	(12,655)	-	-
Total Liabilities and Fund Balances	613,935	80,891	14,622	10,946

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2009

<i>Assets</i>	<i>Airport Terminal Final Design</i>	<i>Airport Pavement Maintenance</i>	<i>Airport Terminal Construction</i>	<i>Totals</i>
Due from Other Governments	13,302	19,000		752,696
Total Assets	13,302	19,000	-	752,696
 <i>Liabilities and Fund Balances</i>				
Liabilities				
Retainage Payable				-
Due to Other Funds	13,302	19,000		765,351
Total Liabilities	13,302	19,000	-	765,351
 Fund Balances				
Undesignated				(12,655)
Total Fund Balances	-	-	-	(12,655)
Total Liabilities and Fund Balances	13,302	19,000	-	752,696

COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

Exhibit C-2
Page 1 of 2

	<i>Airport Taxiway Construction</i>	<i>Airport Snow Removal Equipment</i>	<i>Airport RSA/Wildlife Study</i>	<i>Airport Terminal Study Bus. Plan</i>
Revenues				
Intergovernmental Revenues				
Federal	119,940	56,027	24,138	29,288
State	7,386	1,474	635	770
Total Revenues	127,326	57,501	24,773	30,058
Expenditures				
Engineering Services	56,205	10,520	25,066	24,228
Construction	83,377			
Professional Services	2,437	313	313	6,464
Equipment		60,083		
All Other	2,701	714	29	137
Total Expenditures	144,720	71,630	25,408	30,829
Excess of Revenues Over (Under) Expenditures	(17,394)	(14,129)	(635)	(771)
Other Financing Sources (Uses)				
Transfers from Other Funds	17,394	1,474	635	771
Total Other Financing Sources (Uses)	17,394	1,474	635	771
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(12,655)	-	-
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	-	(12,655)	-	-

COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2009

Exhibit C-2
Page 2 of 2

	<i>Airport Terminal Final Design</i>	<i>Airport Pavement Maintenance</i>	<i>Airport Terminal Construction</i>	<i>Totals</i>
Revenues				
Intergovernmental Revenues				
Federal	279,483	114,777		623,653
State	7,355	3,021		20,641
Total Revenues	286,838	117,798	-	644,294
Expenditures				
Engineering Services	411,663	25,493		553,175
Construction		94,204		177,581
Professional Services	4,513			14,040
Equipment				60,083
All Other	1,516	1,122	1,101	7,320
Total Expenditures	417,692	120,819	1,101	812,199
Excess of Revenues Over (Under)				
Expenditures	(130,854)	(3,021)	(1,101)	(167,905)
Other Financing Sources (Uses)				
Transfers from Other Funds	130,854	3,021	1,101	155,250
Total Other Financing Sources (Uses)	130,854	3,021	1,101	155,250
Excess of Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	-	-	-	(12,655)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	-	-	-	(12,655)

COUNTY OF KNOX
 AGENCY FUNDS

Exhibit D-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	<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	22,185	85,840	95,556	12,469
<i>Liabilities</i>				
Due to Inmates	22,185	85,840	95,556	12,469

***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***

June 1, 2010

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, 2009, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated July 1, 2009. 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.

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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 2009-02.

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

and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. However, of the significant deficiencies described above, we consider item 2009-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Knox, Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-01

County of Knox'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 management, County Commissioners, others within the entity 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***

June 1, 2010

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, 2008. The County of Knox, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Knox, Maine's management. Our responsibility is to express an opinion on the County of Knox, Maine's compliance based on our audit.

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

As described in item 2009-01 in the accompanying schedule of findings and questioned costs, County of Knox, Maine did not comply with requirements regarding Davis Bacon Act that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for County of Knox, Maine to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County of Knox, Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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.

This report is intended solely for the information and use of the management, County Commissioners, others within the entity, 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, 2009*

NONE

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

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. One reportable condition 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*. The condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the County of Knox, Maine were disclosed during the audit.
4. One reportable condition 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*. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for the County of Knox, Maine expresses a qualified opinion.
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

2009-02 Financial Statement Preparation

Based on recently implemented auditing standards, inadequate design of internal control over the preparation of the financial statements being audited is deemed to be a material weakness in the internal control structure. Due to financial and time constraints to effectively prepare and evaluate the audited financial statements and detect material misstatements in those financial statements, the commissioners and management approved the auditors to prepare the financial statements.

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

2009-01

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

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

Condition: During the course of our test work, we selected 34 for testing and noted 1 instance in which the employee was not being paid the prevailing wages according to the Department of Labor wages determination sheet. We also noted that formal interviews were not conducted. With no formal interviews, we were unable to verify that workers were changed from skilled workers to unskilled workers on the certified payrolls.

Questioned Costs: None

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

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

Management's Response: Management concurs with the finding and has paid restitution to the employee as of June 1, 2010. They also agree to have the engineer monitor the contractor's to be in full compliance with the Davis Bacon Act.

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

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	20.600	PT09-029	4,017	4,017
Passed Through Maine Department of Public Safety	20.601	ALC09-064	4,712	4,712
Speed Enforcement Grant	20.609	OP09-063	2,000	2,000
OUI Grant				
Seat Belt Grant				
Federal Aviation Administration	20.106		125,000	25,409
Airport Improvements - RSA/Wildlife Study	20.106		75,000	30,830
Airport Improvements - Terminal Study Business	20.106		130,000	71,630
Airport Improvements - Snow Removal Equipment	20.106		5,804,821	144,720
Airport Improvements - Parallel Taxiway Construction	20.106		445,000	417,692
Airport Improvements - Terminal Final Design	20.106		135,000	120,818
Airport Improvements - Pavement Maintenance	20.106		2,124,922	1,101
Airport Improvements - Terminal Construction	20.106		8,839,743	812,200
Total Federal Aviation Administration			8,850,472	822,929
Total U.S. Department of Transportation				
U.S. Department of Homeland Security	93.069		10,000	3,486
Pandemic Influenza Planning	97.020		28,766	2,921
Hazmat Ops Training	97.020		9,450	9,450
Reg. Shelter Support	97.039		18,750	9,299
Hazard Mitigation Review	97.053		3,850	3,850
Cart	97.053		3,150	277
Search and Rescue	97.053		7,000	195
Cert / Ares / Races	97.066		29,328	10,145
EMA Planning	97.067		118,770	107,306
MDT Phase 2	97.067		11,666	7,129
Exercise Series	97.067		15,000	14,973
HSGP Backlog	97.067		40,000	546
KC EMA Planning	97.068		1,075	50
Awareness Instructor Fees	97.068		1,800	1,331
RR16 Training	97.068		268,801	86,713
Airport Security	97.090		567,406	257,671
Total U.S. Department of Homeland Security				

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

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 Commerce				
Radio Cache Grant	11.555		16,416	180
CONOPS MDT Grant	11.555		205,571	90,545
Fire Pagers	11.555		30,303	30,303
Microwave Grant	11.555		76,335	8,700
Total U.S. Department of Commerce			328,625	129,728
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
JAG Grant	16.804		27,823	734
Underage Drinking Grant	16.727		2,000	618
Total U.S. Department of Justice			70,214	41,743
Total			9,816,717	1,252,071

**COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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.