

COUNTY OF KNOX

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR
ENDED DECEMBER 31, 2010*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2010**

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COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

August 4, 2011
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, 2010, 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, 2010, 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 August 4, 2011 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 3-7 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, 2010

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, 2010. 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, 2010 by \$27,522,374 (presented as “net assets”). Of this amount, \$2,558,087 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 \$3,961,176 (a 16.8 % increase) for the fiscal year ended December 31, 2010.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2010, the County's governmental funds reported a combined ending fund balance of \$2,995,336 with \$966,174 being general undesignated fund balance. This undesignated fund balance represents approximately 24% of the total general fund expenditures for the year.

Long-term Debt:

The County has no debt as of December 31, 2010.

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.

The government-wide financial statements can be found on pages 8-9 of this report.

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.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

The fiduciary fund financial statements can be found on page 14 of this report.

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 on pages 15-25 of this report.

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).

Required supplementary information can be found on page 26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

90% 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 2010	Total 2009
Current Assets	3,377,923	3,395,577
Capital Assets	24,759,925	20,854,281
Total Assets	28,137,848	24,249,858
Current Liabilities	615,474	688,660
Other Liabilities		
Total Liabilities	615,474	688,660
Net Assets:		
Invested in Capital Assets	24,759,925	20,854,281
Restricted	204,362	112,211
Unrestricted	2,558,087	2,594,706
Total Net Assets	27,522,374	23,561,198
Total Liabilities and Net Assets	28,137,848	24,249,858

Changes in Net Assets

Approximately 52.7 percent of the County's total revenue came from assessments, approximately 37.3 percent came from State subsidies and grants, and approximately 10 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$707,485 of the total expenditures for the fiscal year.

Revenues:

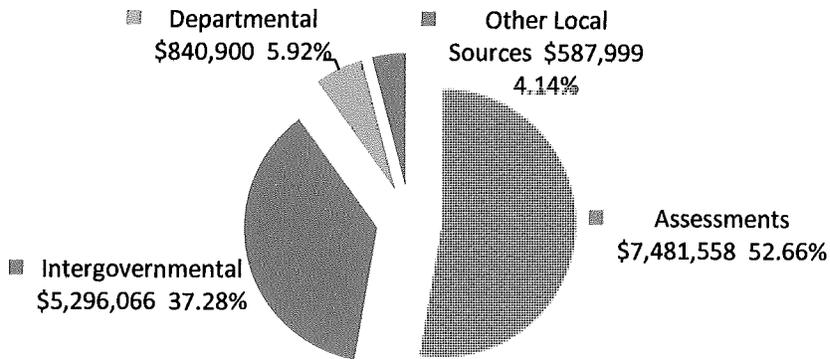
District Assessments	7,481,558	7,366,140
Intergovernmental Revenues	5,296,066	1,642,401
Departmental Revenues	840,900	840,460
Other Local Sources	587,999	477,499
Total	14,206,523	10,326,500

Expenses:

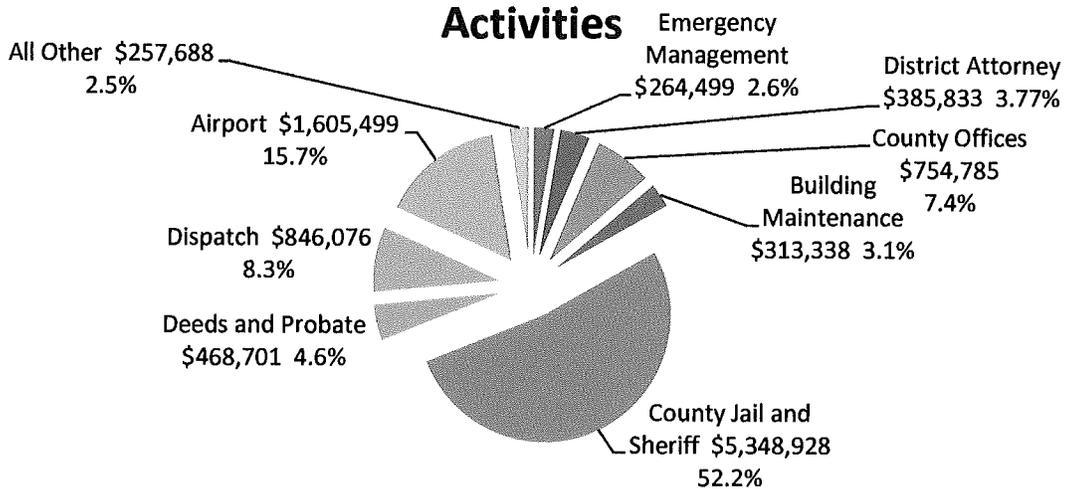
Emergency Management Agency	264,499	199,183
District Attorney	385,833	385,954
County Commissioners	547,310	515,726
County Treasurer	207,475	175,590
Building Maintenance	313,338	396,609
Debt Service	14,821	42,475
County Jail	3,638,963	3,712,576
Registry of Deeds	258,382	356,257
Probate Court	210,319	197,822
Sheriff's Patrol	1,709,965	1,717,468
Dispatch	846,076	790,879
Capital Outlay	23,708	39,687
Airport	1,605,499	1,209,100
Loss on Sale of Assets	-	7,772
All Other	219,159	250,141
	10,245,347	9,997,239

<i>Changes in Net Assets</i>	3,961,176	329,261
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Revenues By Source - Governmental Activities



Expenditures By Source - Governmental Activities



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 \$2,995,336 a decrease of \$168,649 in comparison with the prior year. 37% percent of this total amount constitutes undesignated fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

Variances between actual General Fund revenues and expenditures and the final amended budget included the following:

- \$42,009 negative variance in deed fees. There were less property sales and transfers.
- \$26,810 positive variance in civil process fees. There were more civil process servings than budgeted. Expense for civil process was over budget by \$30,533, which offsets revenues.
- \$20,405 positive variance in building maintenance capital. There were changes in cost of projects after bids received. \$16,193 of the remaining balance was transferred to courthouse maintenance and repair reserve.
- \$26,089 positive variance in sheriff capital outlay. There was a delay in purchasing of a vehicle. \$26,000 was transferred to sheriff vehicle reserve.
- \$70,980 positive variance in risk management pool. The invoices came in less than budgeted.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities amounts to \$30,522,818 net of accumulated depreciation of \$5,762,893 leaving a net book value of \$24,759,925.

Additional information on the Town's capital assets can be found in Note 3D of the notes to the financial statements on page 22 of this report.

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, 2010

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	(9,198)
Investments	2,250,117
Accounts Receivable	121,189
Prepaid Expenditures	7,347
Due from Other Governments	1,008,468
Capital Assets:	
Land	2,126,236
Other Capital Assets, Net of Depreciation	<u>22,633,689</u>
Total Assets	<u><u>28,137,848</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	75,937
Retainage Payable	21,000
Accrued Salaries	104,960
Compensated Absences	<u>413,577</u>
Total Liabilities	<u>615,474</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	24,759,925
Restricted Net Assets	204,362
Unrestricted	<u>2,558,087</u>
Total Net Assets	<u>27,522,374</u>
Total Liabilities and Net Assets	<u><u>28,137,848</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, 2010**

Exhibit B

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants</u>	
<u>Primary Government</u>	<u>Total</u>			<u>Governmental Activities</u>
<u>Governmental Activities</u>				
Emergency Management Agency	264,499	2,595	64,265	(197,639)
District Attorney	385,833	15,256	45,793	(324,784)
County Commissioners	547,310			(547,310)
County Treasurer	207,475	1,373		(206,102)
Building Maintenance	313,338	102,309		(211,029)
Debt Service	14,821			(14,821)
County Jail	3,638,963	65,332	440,360	(3,133,271)
Registry of Deeds	258,382			(258,382)
Probate Court	210,319	92,496		(117,823)
Sheriff's Patrol	1,709,965	417,352	185,518	(1,107,095)
Dispatch	846,076	735		(845,341)
Capital Outlay	23,708			(23,708)
Airport	1,605,499	266,554	98,466	(1,240,479)
All Other	219,159			(219,159)
<u>Total Governmental Activities</u>	<u>10,245,347</u>	<u>964,002</u>	<u>834,402</u>	<u>(8,446,943)</u>
<u>Total Primary Government</u>	<u>10,245,347</u>	<u>964,002</u>	<u>834,402</u>	<u>(8,446,943)</u>
<u>General Revenues:</u>				
Assessments				6,594,874
Dispatch Assessment				885,949
Registry of Deeds Fees				408,983
Airport Federal and State Grants for Capital Assets & Infrastructure				4,342,770
Emergency Management Federal Grant for Capital Assets				96,655
Other Local Sources				78,888
<u>Total Revenues, Special Items and Transfers</u>				<u>12,408,119</u>
<u>Changes in Net Assets</u>				<u>3,961,176</u>
<u>Net Assets - Beginning</u>				<u>23,561,198</u>
<u>Net Assets - Ending</u>				<u>27,522,374</u>

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010

Exhibit C
Page 1 of 2

<i>Assets</i>	<i>General Fund</i>	<i>Reserve Funds</i>	<i>Airport</i>		<i>Airport #31 Terminal Construction</i>		<i>Airport #33 Terminal Construction</i>		<i>Jail Fund</i>	<i>Other Governmental Funds</i>	<i>Total</i>
			<i>#30 Terminal Construction</i>	<i>#31 Terminal Construction</i>	<i>#33 Terminal Construction</i>	<i>#33 Terminal Construction</i>					
Cash and Equivalents	(249,300)									240,102	(9,198)
Investments		2,050,719								199,398	2,250,117
Accounts Receivable	55,241	1,000							6,166	58,782	121,189
Prepaid Expenditures	7,347										7,347
Due from Other Funds	1,580,142	7,089							326,133	49,156	1,962,520
Due from Other Governments			40,973	456,101	206,256				305,138		1,008,468
Total Assets	1,393,430	2,058,808	40,973	456,101	206,256	332,299	852,576	5,340,443			
<i>Liabilities and Fund Balance</i>											
<i>Liabilities</i>											
Accounts Payable	6,184	23,035	13,873	16,430		7,413	9,002				75,937
Retainage Payable				20,000			1,000				21,000
Accrued Salaries	43,895					43,250	17,815				104,960
Due to Other Funds	377,177	619,487	27,100	419,671	206,256	180,690	312,829				1,962,520
Deferred Revenues											180,690
Total Liabilities	427,256	642,522	40,973	456,101	206,256	231,353	340,646	2,345,107			
<i>Fund Balances</i>											
Unreserved	966,174	1,416,286				100,946	42,717				2,526,123
Unreserved, Reported in Nonmajor Special Revenue Funds							469,213				469,213
Total Fund Balances	966,174	1,416,286				100,946	511,930	2,995,336			
Total Liabilities and Fund Balances	1,393,430	2,058,808	40,973	456,101	206,256	332,299	852,576	5,340,443			

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010

Exhibit C
Page 2 of 2

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

Total Fund Balance	2,995,336
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$5,762,893	<u>24,759,925</u>
	<u>24,759,925</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>180,690</u>
	<u>180,690</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>(413,577)</u>
	<u>(413,577)</u>
Net Assets of Governmental Activities	<u><u>27,522,374</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, 2010

	General Fund	Reserve Funds	Airport #50 Terminal Construction	Airport #31 Terminal Construction	Airport #33 Terminal Construction	Jail Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Assessments	6,594,874						886,684	7,481,558
Intergovernmental Revenues	93,412	1,685,129	1,180,313	572,838	435,870		1,328,504	5,296,066
Departmental Revenues	836,410							836,410
Other Local Sources	17,794	244,489			21,480		304,236	587,999
Total Revenues	7,542,490	244,489	1,685,129	1,180,313	572,838	457,350	2,519,424	14,202,033
Expenditures								
Emergency Management Agency	121,205						95,092	216,297
District Attorney	323,354						72,634	395,988
County Commissioners	530,967	56,959						587,926
County Treasurer	210,472	3,908						210,472
Building Maintenance	546,992							550,900
Debt Service	14,821							14,821
County Jail						3,676,423	8,356	3,684,779
Registry of Deeds	260,943	631						261,574
Probate Court	212,279							212,279
Sheriff's Patrol	1,598,590	91,105		1,273,791	705,879		16,472	1,706,167
Dispatch		33,063					855,366	888,429
Airport		30,859	2,015,656				1,357,987	5,384,172
Capital Outlay		23,708						23,708
All Other	219,159						14,011	233,170
Total Expenditures	4,038,782	240,233	2,015,656	1,273,791	705,879	3,676,423	2,419,918	14,370,682
Excess of Revenues Over (Under) Expenditures	3,503,708	4,256	(330,527)	(93,478)	(133,041)	(3,219,073)	99,506	(168,649)
Other Financing Sources (Uses)								
Transfers from Other Funds	14,020	347,598	330,527	162,058	133,041	3,188,700	182,172	4,358,116
Transfers to Other Funds	(3,435,762)	(730,063)		(68,580)			(123,711)	(4,358,116)
Total Other Financing Sources (Uses)	(3,421,742)	(382,465)	330,527	93,478	133,041	3,188,700	58,461	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	81,966	(378,209)	-	-	-	(30,373)	157,967	(168,649)
Fund Balance - January 1	884,208	1,794,495				131,319	353,963	3,163,985
Fund Balance - December 31	966,174	1,416,286	-	-	-	100,946	511,930	2,995,336

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, 2010**

**Exhibit D
 Page 2 of 2**

Net change in fund balances - total governmental funds (168,649)

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	4,613,129
Depreciation expense	(707,485)

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

Deferred Revenues	4,490
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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	219,691
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Change in net assets of governmental activities	<u>3,961,176</u>
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COUNTY OF KNOX
 STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
 DECEMBER 31, 2010

Exhibit E

	<i>Agency Fund</i>		<i>Totals</i>
	<i>Inmate Fund</i>	<i>DA Restitution</i>	
<i>Assets</i>			
Cash and Equivalents	14,091	85,746	99,837
<i>Total Assets</i>	14,091	85,746	99,837
<i>Liabilities</i>			
Due to Victims			
Due to Inmates	14,091	85,746	99,837
<i>Total Liabilities</i>	14,091	85,746	99,837

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

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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.

B. 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 non-fiduciary activities of the County. Fiduciary activities, whose resources are not available to finance the County's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Functional expenses may also include an element of indirect cost, designed to recover administrative (overhead) costs. *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 contributions 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds, reporting only assets and liabilities, have no measurement focus but use the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when 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. For this purpose, 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 a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditure related to compensated absences and claims and judgments are recorded only when payment is due.

*COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, sales taxes, interdepartmental charges and intergovernmental revenues are considered susceptible to accrual. Special assessments are recorded as revenues in the year the assessment become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

The General Fund is 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.

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

Host community benefit monies are received by the County and used for general expenditures.

The airport terminal construction accounts for all expenditures relating to the new terminal building.

The jail fund accounts for all activity for the jail.

Additionally, the County reports the following fund types:

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.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Fund Equity

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The County may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Maine Statute 5705 Title 30-A and as provided in the authorized investment guidelines of the Maine Statutes 5711 through 5719 in effect on the date the investment is made.

Investments in the Pension Trust Fund are carried at fair value. Investments in other funds are carried at fair value, except for short-term investments, which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

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, 2010**

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.

Capital assets 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

County employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for all accumulated vacation time.

Employees earn sick leave at a rate of one day per month of service, accumulative to a maximum of 120 working days. Upon retirement or resignation, an employee in good standing is entitled to payment for one-half of accrued sick leave of not more than 90 days accumulation.

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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the bonds-outstanding method. For current and advance refunding of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

D. Assets, Liabilities and Net Assets or Fund Equity (continued)

6. Long-term Obligations (continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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.

Net assets are required to be classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portions of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted – This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (continued)

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.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The County's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State Statute 5706 require banks to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the County Treasurer in the amount of the County's deposits. The Statutes allow pledged securities to be reduced by the amount of Federal Deposit Insurance County (FDIC).

One or more of the financial institutions holding the County's cash accounts are participating in the FDIC Transaction Account Guarantee Program. Under the program, all noninterest bearing checking accounts include demand deposit accounts and any transaction account that has unlimited withdrawals and cannot earn interest are fully guaranteed by the FDIC for the entire amount. Also through December 31, 2010, IOLTA accounts and NOW accounts that do not earn more than .25% interest are fully guaranteed by the FDIC for the entire amount as long as the depository institution participates in the Transaction Account Guarantee (TAG) program. For interest bearing accounts, the County's cash deposits, including certificates of deposits, are insured up to \$250,000 per custodian by the FDIC. Any cash deposits or certificates of deposits in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the County and thus no custodial risk exists.

At year-end, the carrying value of the County's deposits was \$90,639 and the bank balance was \$568,847. Of the bank balance, \$382,646 was covered by federal depository insurance. The remaining \$186,201 was covered by a FHLB irrevocable letter of credit.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

B. Investments

At December 31, 2010, the County had the following investments, maturities, and credit ratings:

<i>Type</i>	<i>Fair Value</i>	<i>Maturities in Years</i>				<i>Credit Rating</i>	
		<i>< 1</i>	<i>1-5</i>	<i>6-10</i>	<i>> 10</i>	<i>S&P</i>	<i>Moody's</i>
<i>All Funds</i>							
U.S. Treasury Securities	2,250,117		2,250,117			AAA	AAA
	<u>2,250,117</u>	-	<u>2,250,117</u>	-	-		

Investment Policies

Generally, the County's investing activities are managed under the custody of the County Treasurer. Investing is performed in accordance with the investment policy adopted by the County Commissioners complying with state statutes. The County may invest in securities permitted under 30-A MRSA 5712, 5713, 5714, 5715, and 5716. Upon approval of the County Commissioners, the treasurer of the trustee(s) of a trust fund of the County, may enter into safekeeping and investment management agreements and/or investment advisory agreements in accordance with 30-A MRSA 5706(4) and the investment funds pursuant to any such agreements shall be governed by the rule prudence as set forth in 18-A MRSA 7-302.

C. 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, 2010, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 7,633,800,000
Unorganized territories	<u>18,950,000</u>
Total assessed valuation	7,652,750,000
Tax rate	<u>0.0008618</u>
Current tax commitment	<u>\$ 6,594,874</u>
Appropriations	8,991,518
Overlay	<u>129,311</u>
	9,120,829
Less:	
Estimated revenues	<u>(2,525,955)</u>
Current tax commitment	<u>\$ 6,594,874</u>

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2010 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	2,126,236			2,126,236
<i>Capital assets being depreciated</i>				
Buildings	5,975,329	3,728,779		9,704,108
Equipment	2,916,869	823,161	(68,364)	3,671,666
Infrastructure	14,959,619	61,189		15,020,808
<i>Total capital assets being depreciated</i>	23,851,817	4,613,129	(68,364)	28,396,582
<i>Less accumulated depreciation for</i>				
Buildings	2,274,981	124,315		2,399,296
Equipment	1,154,236	274,312	(68,364)	1,360,184
Infrastructure	1,694,555	308,858		2,003,413
<i>Total accumulated depreciation</i>	5,123,772	707,485	(68,364)	5,762,893
<i>Net capital assets being depreciated</i>	18,728,045	3,905,644	-	22,633,689
Governmental Activities Capital Assets, net	20,854,281	3,905,644	-	24,759,925

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

Governmental Activities

Emergency Management	67,005
District Attorney	518
County Commissioners	15,627
County Treasurer	106
County Jail	138,127
Sheriff's Patrol	111,105
Dispatch	12,864
Airport	362,133
Total Depreciation Expense - Governmental Activities	707,485

**COUNTY OF KNOX
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

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

E. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2010, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	1,580,142	377,177
Special Revenue Funds		
Reserve Funds	7,089	619,487
Jail Fund	326,133	
Airport Fund		12,577
Grant Funds	5,200	8,888
Dispatch Fund	43,956	
Capital Project Fund		<u>944,391</u>
Totals	<u><u>1,962,520</u></u>	<u><u>1,962,520</u></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.

Transfers To/From Other Funds at December 31, 2010, were as follows:

	<i>Transfers From</i>	<i>Transfers To</i>
General Fund	14,020	3,435,762
Special Revenue Funds		
Reserves	347,598	730,063
Grant Funds	27,092	68,756
Jail Fund	3,188,700	
Airport Fund	98,144	
Dispatch Fund		44,950
Capital Projects	<u>682,562</u>	<u>78,585</u>
Totals	<u><u>4,358,116</u></u>	<u><u>4,358,116</u></u>

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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 was an unfunded liability of \$15,000 for 2008, an unfunded liability of \$79,944 for 2009, and an unfunded liability of \$69,982 for 2010.

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 \$177,914 and the participants have contributed \$81,136 for the year-ended December 31, 2010.

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;

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans (Continued)

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.

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, 2010

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	6,594,874	6,594,874	6,594,874	-
Intergovernmental Revenues	89,219	89,219	93,412	4,193
Departmental Revenues	798,836	817,815	836,410	18,595
Other Local Sources	15,100	15,100	17,794	2,694
Total Revenues	7,498,029	7,517,008	7,542,490	25,482
Expenditures				
Emergency Management Agency	108,244	109,926	121,205	(11,279)
District Attorney	362,093	321,123	323,354	(2,231)
County Commissioners	535,801	539,668	530,967	8,701
County Treasurer	203,998	206,538	210,472	(3,934)
Building Maintenance	552,380	591,928	546,992	44,936
Debt Service	30,000	30,000	14,821	15,179
Registry of Deeds	263,750	266,361	260,943	5,418
Probate Court	205,728	208,306	212,279	(3,973)
Sheriff's Patrol	1,600,017	1,623,943	1,598,590	25,353
All Other	419,450	419,450	219,159	200,291
Total Expenditures	4,281,461	4,317,243	4,038,782	278,461
Excess Revenues Over Expenditures	3,216,568	3,199,765	3,503,708	303,943
Other Financing Sources (Uses)				
Transfers from Other Funds	14,020	14,020	14,020	-
Transfers to Other Funds	(3,230,588)	(3,257,680)	(3,435,762)	(178,082)
Total Other Financing Sources (Uses)	(3,216,568)	(3,243,660)	(3,421,742)	(178,082)
Excess of Revenues and Other Sources Over (Under) Expenditures	-	(43,895)	81,966	125,861
Unreserved Fund Balance - January 1			884,208	
Unreserved Fund Balance - December 31			966,174	

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2010

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	6,594,874	6,594,874	-
Intergovernmental Revenues			
Federal			
Emergency Management Agency	54,024	64,265	10,241
Wildlife Refuge Fees		2,381	2,381
State			
Fuel Reimbursement	35,195	26,766	(8,429)
	<u>89,219</u>	<u>93,412</u>	<u>4,193</u>
Departmental Revenue			
Treasurer - Investment Income	1,200	1,373	173
District Attorney	14,200	15,256	1,056
Building Maintenance	106,485	102,309	(4,176)
Registry of Deeds	410,000	381,857	(28,143)
Probate Court	78,500	89,456	10,956
Sheriff	207,430	246,159	38,729
	<u>817,815</u>	<u>836,410</u>	<u>18,595</u>
Other Local Sources			
Miscellaneous	15,100	17,794	2,694
	<u>15,100</u>	<u>17,794</u>	<u>2,694</u>
Operating Transfers In			
Transfers from Grants	12,500	12,500	-
Transfers from Reserves	1,520	1,520	-
	<u>14,020</u>	<u>14,020</u>	<u>-</u>
Total Revenues and Transfers	7,531,028	<u><u>7,556,510</u></u>	<u><u>25,482</u></u>
Fund Balance Used to Calculate Assessments	<u>43,895</u>		
Total	<u><u>7,574,923</u></u>		

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2010

Exhibit A-2
Page 1 of 2

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Emergency Management Agency			
Personal Services	92,051	92,293	(242)
Contractual Services	9,741	7,052	2,689
Commodities	8,134	7,555	579
Capital Outlay		14,305	(14,305)
	<hr/> 109,926	<hr/> 121,205	<hr/> (11,279)
District Attorney			
Personal Services	268,288	277,262	(8,974)
Contractual Services	39,076	34,001	5,075
Commodities	10,759	9,289	1,470
Capital Outlay	3,000	2,802	198
	<hr/> 321,123	<hr/> 323,354	<hr/> (2,231)
County Commissioners			
Personal Services	347,234	346,509	725
Contractual Services	142,198	135,751	6,447
Commodities	6,216	4,687	1,529
Capital Outlay	44,020	44,020	-
	<hr/> 539,668	<hr/> 530,967	<hr/> 8,701
County Treasurer			
Personal Services	167,050	171,459	(4,409)
Contractual Services	36,738	36,323	415
Commodities	2,750	2,690	60
	<hr/> 206,538	<hr/> 210,472	<hr/> (3,934)
Building Maintenance			
Personal Services	154,143	145,607	8,536
Contractual Services	132,805	126,343	6,462
Commodities	90,030	80,497	9,533
Capital Outlay	214,950	194,545	20,405
	<hr/> 591,928	<hr/> 546,992	<hr/> 44,936
Debt Service			
Interest - Tax Anticipation Note	30,000	14,821	15,179
	<hr/> 30,000	<hr/> 14,821	<hr/> 15,179

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2010

Exhibit A-2
Page 2 of 2

	<i>Budget</i>	<i>Actual</i>	<i>(Over)</i> <i>Under</i> <i>Budget</i>
Registry of Deeds			
Personal Services	177,041	180,165	(3,124)
Contractual Services	86,128	77,774	8,354
Commodities	3,192	3,004	188
	<hr/> 266,361	<hr/> 260,943	<hr/> 5,418
Probate Court			
Personal Services	181,813	186,511	(4,698)
Contractual Services	20,383	20,497	(114)
Commodities	5,110	4,419	691
Capital Outlay	1,000	852	148
	<hr/> 208,306	<hr/> 212,279	<hr/> (3,973)
Sheriff's Patrol			
Personal Services	1,380,809	1,394,751	(13,942)
Contractual Services	147,521	141,371	6,150
Commodities	67,813	60,757	7,056
Capital Outlay	27,800	1,711	26,089
	<hr/> 1,623,943	<hr/> 1,598,590	<hr/> 25,353
Other			
Knox-Lincoln Extension Service	54,570	54,570	-
Knox-Lincoln Soil & Water	19,421	19,421	-
KWRED	45,000	45,000	-
Time and Tide RC&D	3,670	3,670	-
Mid Coast Regional Planning	2,500	2,500	-
Insurance	164,978	93,998	70,980
Overlay	129,311		129,311
	<hr/> 419,450	<hr/> 219,159	<hr/> 200,291
Transfers Out			
Airport Operating	41,888	41,888	-
DA Grant	27,092	27,092	-
Jail	3,188,700	3,188,700	-
Reserves		178,082	(178,082)
	<hr/> 3,257,680	<hr/> 3,435,762	<hr/> (178,082)
Total Appropriations	<hr/> <hr/> 7,574,923	<hr/> <hr/> 7,474,544	<hr/> <hr/> 100,379

COUNTY OF KNOX
GENERAL FUND

Exhibit A-3

STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010

Unreserved - Undesignated Fund Balance January 1, 2010	884,208	
Unreserved - Undesignated Fund Balance December 31, 2010	<u>966,174</u>	
Increase (Decrease)		<u><u>81,966</u></u>

Analysis of Change

Additions		
Budget Summary		
Revenue Surplus (Exhibit A-1)	25,482	
Unexpended (Overdraft) Balance of Appropriations (Exhibit A-2)	<u>100,379</u>	
Budget Surplus (Deficit)		<u>125,861</u>
Deductions		
Fund Balance Used to Calculate Assessments		<u>(43,895)</u>
Increase (Decrease)		<u><u>81,966</u></u>

**COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2010**

Exhibit B-1

<i>Assets</i>	<i>Reserve Funds</i>	<i>Grant Funds (Exhibit B-3)</i>	<i>Jail Fund</i>	<i>Airport Fund</i>	<i>Inmate Fund</i>	<i>Dispatch Fund</i>	<i>Totals</i>
Cash and Equivalents		30,537			209,565		240,102
Investments	2,050,719	199,398					2,250,117
Accounts Receivable	1,000		6,166	58,782			65,948
Due from Other Governments		10,906					10,906
Due from Other Funds	7,089	5,200	326,133			43,956	382,378
Total Assets	2,058,808	246,041	332,299	58,782	209,565	43,956	2,949,451
<i>Liabilities and Fund Balances</i>							
Liabilities							
Accounts Payable	23,035		7,413	3,629		253	34,330
Accrued Salaries			43,250	5,366		12,449	61,065
Deferred Revenues			180,690				180,690
Due to Other Funds	619,487	8,888		12,577			640,952
Total Liabilities	642,522	8,888	231,353	21,572	-	12,702	917,037
Fund Balances							
Unreserved							
Designated for Subsequent Years' Expenditures	1,416,286	217,072		42,576	209,565		1,885,499
Undesignated		20,081	100,946	(5,366)		31,254	146,915
Total Fund Balances	1,416,286	237,153	100,946	37,210	209,565	31,254	2,032,414
Total Liabilities and Fund Balances	2,058,808	246,041	332,299	58,782	209,565	43,956	2,949,451

**COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Reserve Funds (Exhibit B-5)	Grant Funds (Exhibit B-4)	Jail Fund	Airport Fund	Inmate Fund	Dispatch Fund	Totals
Revenues							
Intergovernmental Revenues							
Federal		322,617		98,466			421,083
State		2,931	435,870				438,801
Interest	40,817	4,917					45,734
Fair Value Increase (Decrease)	(9,635)	(38)					(9,673)
Other Local Sources	213,307	899	21,480	254,606	43,852	886,684	1,420,828
Total Revenues	244,489	331,326	457,350	353,072	43,852	886,684	2,316,773
Expenditures							
Personnel Services		57,350	2,528,125	318,397		757,402	3,661,274
Contract Services		11,070	875,294	83,278		92,835	1,062,477
Commodities		115,778	190,024	14,294		5,079	325,175
Capital Outlay		14,011	82,980			50	97,041
Maintenance and Supplies					8,356		8,356
Reserve Funds	240,233						240,233
Total Expenditures	240,233	198,209	3,676,423	415,969	8,356	855,366	5,394,556
Excess of Revenues Over (Under) Expenditures	4,256	133,117	(3,219,073)	(62,897)	35,496	31,318	(3,077,783)
Other Financing Sources (Uses)							
Transfers from Other Funds	347,598	27,092	3,188,700	98,144			3,661,534
Transfers to Other Funds	(730,063)	(68,756)				(44,950)	(843,769)
Total Other Financing Sources (Uses)	(382,465)	(41,664)	3,188,700	98,144		(44,950)	2,817,765
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(378,209)	91,453	(30,373)	35,247	35,496	(13,632)	(260,018)
Fund Balance - January 1	1,794,495	145,700	131,319	1,963	174,069	44,886	2,292,432
Fund Balance - December 31	1,416,286	237,153	100,946	37,210	209,565	31,254	2,032,414

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2010

<i>Assets</i>	<i>Victim/Witness Advocate Grant</i>	<i>Matching Grants Fund</i>	<i>Local Emergency Planning Committee</i>	<i>Summer High Visibility Grant</i>	<i>Energy Efficient Grant</i>
Cash and Equivalents			30,537		
Investments		20,081			169,859
Due from Other Governments	2,909		7,117		
Due from Other Funds				20	
Total Assets	2,909	20,081	37,654	20	169,859
<i>Liabilities and Fund Balances</i>					
Liabilities					
Due to Other Funds	388		7,620		
Total Liabilities	388		7,620		
Fund Balances					
Unreserved					
Designated for Subsequent Years'					
Expenditures	2,521		30,034	20	169,859
Undesignated		20,081			
Total Fund Balances	2,521	20,081	30,034	20	169,859
Total Liabilities and Fund Balances	2,909	20,081	37,654	20	169,859

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2010

Exhibit B-3
 Page 2 of 2

<i>Assets</i>	<i>Underage Drinking Grant</i>	<i>KCCHC Grant</i>	<i>DARE Program</i>	<i>JAG Grant</i>	<i>Totals</i>
Cash and Equivalents					30,537
Investments			9,458		199,398
Due from Other Governments				880	10,906
Due from Other Funds	3,382	1,798			5,200
Total Assets	3,382	1,798	9,458	880	246,041

Liabilities and Fund Balances

<i>Liabilities</i>	
Due to Other Funds	880
Total Liabilities	880

<i>Fund Balances</i>	
Unreserved	
Designated for Subsequent Years'	
Expenditures	217,072
Undesignated	20,081
Total Fund Balances	237,153

Total Liabilities and Fund Balances

Total Liabilities and Fund Balances	880	9,458	880	246,041
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COUNTY OF KNOX
GRANT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2010

Exhibit B-4
Page 1 of 2

	Victim/Witness Advocate Grant	Matching Grants Fund	Local Emergency Planning Committee	Airport Security	Summer High Visibility Grant
Revenues					
Intergovernmental Revenues					
Federal	45,793		93,724		6,080
State			2,931		
Other			2,499		
Fair Value Increase (Decrease)		44			
Interest		559	96		
Total Revenues	45,793	603	99,250	-	6,080
Expenditures					
Personnel Services	45,779		5,511		6,060
Contract Services	84		10,986		
Commodities					
Capital Outlay		14,011	78,475		
Other Governments	26,771				
Total Expenditures	72,634	14,011	94,972	-	6,060
Excess of Revenues Over (Under) Expenditures	(26,841)	(13,408)	4,278	-	20
Other Financing Sources (Uses)					
Transfers from Other Funds	27,092		(12,500)	(56,256)	
Transfers to Other funds					
Total Other Financing Sources (Uses)	27,092		(12,500)	(56,256)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	251	(13,408)	(8,222)	(56,256)	20
Fund Balance - January 1	2,270	33,489	38,256	56,256	
Fund Balance - December 31	2,521	20,081	30,034	-	20

**COUNTY OF KNOX
GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Energy Efficient Grant	Underage Drinking Grant	KCCHC Grant	DARE Program	JAG Grant	Totals
Revenues						
Intergovernmental Revenues						
Federal	174,900	2,000			120	322,617
State						2,931
Other			2,418			4,917
Fair Value Increase (Decrease)	(41)			(41)		(38)
Interest				244		899
Total Revenues	174,859	2,000	2,418	203	120	331,326
Expenditures						
Personnel Services						57,350
Contract Services						11,070
Commodities	5,000			2,612		7,612
Capital Outlay						14,011
Other Governments			2,800		120	108,166
Total Expenditures	5,000	-	2,800	2,612	120	198,209
Excess of Revenues Over (Under) Expenc	169,859	2,000	(382)	(2,409)	-	133,117
Other Financing Sources (Uses)						
Transfers from Other Funds						27,092
Transfers to Other Funds						(68,756)
Total Other Financing Sources (Uses)	-	-	-	-	-	(41,664)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	169,859	2,000	(382)	(2,409)		91,453
Fund Balance - January 1		1,382	2,180	11,867		145,700
Fund Balance - December 31	169,859	3,382	1,798	9,458	-	237,153

COUNTY OF KNOX
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2010

Reserve Fund	Fund Balance January 1	New Funds	Transfers From Other Funds	Interest	Increase (Decrease) in Fair Value	Transfers To Other Funds	Expenditures	Fund Balance December 31
Contingency	102,240		23,000	1,877	(287)	(26,000)		100,830
Courthouse Computer	42,072			549	(13)	(1,520)	(17,300)	23,788
Courthouse Furniture/Fixtures	12,480			266	(62)			12,684
Courthouse Maintenance	24,486		16,193	522	(135)			41,066
Deeds Surcharge	24,764	27,126		659	(211)		(631)	51,707
Dispatch Computer	8,491			141	(33)			8,599
Dispatch Renovations	7,166		26,000	66	(41)		(33,063)	128
Dispatch Miscellaneous	-		44,950		(11)			44,939
EMA Disaster Fund	7,517		12,000	160	(42)			19,635
Forfeiture Money - Federal	64,963	165,000		1,845	(622)			231,186
Forfeiture Money - State	74,250	6,193		1,623	(389)		(409)	81,268
Health Insurance	38,729			826	(195)			39,360
Jail Capital	95,303			1,881	(455)			96,729
Jail Computer	14,338			305	(71)			14,572
Jail Consultant	35,315			753	(179)			35,889
Jail Training	7,635			162	(41)			7,756
Jail Vehicle	8,900			189	(40)			9,049
Knox County Building	148,159		34,000	3,159	(793)		(3,908)	180,617
Legal	122,505			2,655	(439)		(56,959)	67,762
Maine Retirement	-		6,984					6,984
Probate Surcharge	14,426	3,040		325	(84)			17,707
Resignation Benefits	34,819		24,905	731	(165)		(6,408)	53,882
Safety	12,394			264	(53)			12,605
Security Deposit	787			17	(3)			801
Sheriff's Computer	29,621			632	(139)		(1,140)	28,974
Sheriff's Vehicle	90,938		26,000	1,628	(251)		(89,556)	28,759
Unemployment	26,896		35,000	573	(129)			62,340
Airport	496,488			10,585	(2,806)	(471,904)		32,363
Airport Computer	13,853			295	(67)		(2,351)	11,730
Airport Miscellaneous Equipment	93,147	10,948		2,011	(486)	(66,192)	(4,972)	34,456
Airport Projects	141,813		10,005	3,052	(725)	(104,753)		49,392
Airport Terminal Building	-	1,000	88,561	3,066	(668)	(59,694)	(23,536)	8,729
Total	1,794,495	213,307	347,598	40,817	(9,635)	(730,063)	(240,233)	1,416,286

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2010

Exhibit C-1
 Page 1 of 2

Assets	Airport VALE Project	Airport Pavement Project	Airport Obstruction Analysis	Airport Snow Removal Equipment	Airport RSA/Wildlife Study	Airport Terminal Study Bus. Plan
Due from Other Governments	104,140	89,434	11,005	52,980	36,673	
Total Assets	104,140	89,434	11,005	52,980	36,673	-
Liabilities and Fund Balances						
Liabilities						
Accounts Payable		5,120				
Retainage Payable		1,000				
Due to Other Funds	104,140	83,314	11,005	55,044	36,673	800
Total Liabilities	104,140	89,434	11,005	55,044	36,673	800
Fund Balances						
Undesignated				(2,064)		(800)
Total Fund Balances	-	-	-	(2,064)	-	(800)
Total Liabilities and Fund Balances	104,140	89,434	11,005	52,980	36,673	-

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2010

Exhibit C-1
 Page 2 of 2

<i>Assets</i>	<i>Airport Terminal Final Design</i>	<i>Airport #30 Terminal Construction</i>	<i>Airport #31 Terminal Construction</i>	<i>Airport #33 Terminal Construction</i>	<i>Totals</i>
	Due from Other Governments	-	40,973	456,101	206,256
Total Assets	-	40,973	456,101	206,256	997,562
<i>Liabilities and Fund Balances</i>					
<i>Liabilities</i>					
Accounts Payable		13,873	16,430		35,423
Retainage Payable			20,000		21,000
Due to Other Funds	388	27,100	419,671	206,256	944,391
Total Liabilities	388	40,973	456,101	206,256	1,000,814
<i>Fund Balances</i>					
Undesignated	(388)				(3,252)
Total Fund Balances	(388)	-	-	-	(3,252)
Total Liabilities and Fund Balances	-	40,973	456,101	206,256	997,562

**COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

*Exhibit C-2
Page 1 of 2*

	Airport VALE Project	Airport Pavement Project	Airport Obstruction Analysis	Airport Snow Removal Equipment	Airport RSA/Wildlife Study	Airport Terminal Study Bus. Plan
Revenues						
Intergovernmental Revenues						
Federal	101,470	105,042	45,316	570,699	31,232	3,785
State	2,670	2,764	1,193	15,216	822	99
Total Revenues	104,140	107,806	46,509	585,915	32,054	3,884
Expenditures						
Engineering Services		36,947	44,936		31,230	3,197
Construction	124,713	61,189		608	1,609	
Professional Services		1,610		597,428		
Equipment						
All Other	18	819	2,766		38	1,586
Total Expenditures	124,731	100,565	47,702	598,036	32,877	4,783
Excess of Revenues Over (Under) Expenditures	(20,591)	7,241	(1,193)	(12,121)	(823)	(899)
Other Financing Sources (Uses)						
Transfers from Other Funds	20,591	2,764	1,193	22,712	823	99
Transfers to Other Funds		(10,005)				
Total Other Financing Sources (Uses)	20,591	(7,241)	1,193	22,712	823	99
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	10,591	-	(800)
Fund Balance - January 1	-	-	-	(12,655)	-	-
Fund Balance - December 31	-	-	-	(2,064)	-	(800)

**COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Exhibit C-2
Page 2 of 2

	Airport	Airport	Airport	Airport	Airport	Airport	Airport	Totals
	Terminal Final Design	Pavement Maintenance	#30 Terminal Construction	#31 Terminal Construction	#33 Terminal Construction			
Revenues								
Intergovernmental Revenues								
Federal	12,301	11,261	1,641,920	1,150,049	558,150			4,231,225
State	324	296	43,209	30,264	14,688			111,545
Total Revenues	12,625	11,557	1,685,129	1,180,313	572,838			4,342,770
Expenditures								
Engineering Services	19,878	11,373	442,403	166,312	33,795			790,071
Construction			1,570,714	1,107,363	667,213			3,531,192
Professional Services	481	481	882					5,671
Equipment								597,428
All Other	1,111		1,657	116	4,871			12,982
Total Expenditures	21,470	11,854	2,015,656	1,273,791	705,879			4,937,344
Excess of Revenues Over (Under) Expenditures	(8,845)	(297)	(330,527)	(93,478)	(133,041)			(594,574)
Other Financing Sources (Uses)								
Transfers from Other Funds	8,457	297	330,527	162,058	133,041			682,562
Transfers to Other Funds				(68,580)				(78,585)
Total Other Financing Sources (Uses)	8,457	297	330,527	93,478	133,041			603,977
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(388)	-	-	-	-			9,403
Fund Balance - January 1	-	-	-	-	-			(12,655)
Fund Balance - December 31	(388)	-	-	-	-			(3,252)

COUNTY OF KNOX
 AGENCY FUNDS

Exhibit D-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<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	12,469	102,877	101,255	14,091
<i>Liabilities</i>				
Due to Inmates	12,469	102,877	101,255	14,091

***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***

August 4, 2011

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, 2010, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated August 4, 2011. 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 2010-01 and 2010-02.

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 2010-01 and 2010-02 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.

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***

August 4, 2011

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, 2010. 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, except, the County of Knox, Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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, 2010

2010-01

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.

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010

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

2010-01 District Attorney Restitution Account

Condition: During the audit it was brought to our attention that the DA restitution cash account existed. The money received is supposed to be turned over to the victims.

Criteria: Internal control over cash receipts and disbursements.

Cause: Due to lack of controls, money owed to victims was not being paid on a timely basis. Deposits were made only three times for year ended December 31, 2010. Also, the cash box was not kept in a locked safe where it was easily accessible.

Effect: A large amount of cash has been sitting in an old checking account, which is due to victims. Where the cash box was not kept in a locked safe, \$4,000 cash is missing.

Recommendation: We recommend that the county keep the cash box in a locked safe with limited access. We also recommend deposits be made on a weekly basis. We also recommend reconciling the remainder of the restitution accounts and pay victims on a timely basis.

Response: Management concurs with the recommendation. Weekly deposits are already being made and the cash box is kept in a locked safe with limited access. The auditor reconciled old restitution accounts and the DA's office will continue to keep up with the reconciliations.

2010-02 Financial Statement Preparation

Condition: Based on recently implemented auditing standards, inadequate design of internal control over the preparation of the financial statements is deemed to be a material weakness in the internal control structure.

Criteria: Internal control over financial reporting in preparing the financial statements.

Cause: Due to financial and time constraints to effectively prepare and evaluate the audited financial statements and detect material misstatements in those financial statements, the board and management approve the auditors to prepare the financial statements.

Effect: The auditor prepares the financial statements.

Recommendation: The board should continue to understand and take responsibility for the financial statements.

Response: Management concurs with the recommendation and will continue to understand and take responsibility for the financial statements.

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, 2010

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 Passed Through Maine Department of Public Safety	20.600	SCE 10-069	6,400	6,060
Summer High Visibility Federal Aviation Administration				
Airport Improvements - RSA/Wildlife Study	20.106		125,000	32,877
Airport Improvements - Terminal Study Business	20.106		75,000	4,784
Airport Improvements - Snow Removal Equipment	20.106		745,000	598,036
Airport Improvements - Terminal Construction	20.106		2,226,410	1,342,371
Airport Improvements - Terminal Final Design	20.106		445,000	21,470
Airport Improvements - Pavement Maintenance	20.106		135,000	11,854
Airport Improvements - VALE	20.106		150,472	124,713
Airport Improvements - Terminal Construction	20.106		579,352	579,352
Airport Improvements - Pavement	20.106		152,000	110,571
Airport Improvements - Obstruction Analysis	20.106		199,300	47,701
Airport Improvements - Terminal Construction	20.106		2,124,922	2,015,657
Total Federal Aviation Administration			6,957,456	4,889,386
Total U.S. Department of Transportation			6,963,856	4,895,446
U.S. Department of Homeland Security				
WMD Ops & Capital Purchase	97.004		3,000	560
WMD Training	97.005		3,750	122
WMD Exercise	97.006		41,195	2,417
WMD Terrorism Training	97.014		8,216	1,071
Hazard Mitigation Review	97.039		18,750	3,519
Pre Disaster Mitigation Planning	97.047		20,000	156
Cart	97.053		3,000	1,606
Search and Rescue	97.053		4,000	112
Cert / Ares / Races	97.053		7,000	300
MDT Phase 2	97.067		118,770	7,500
Exercise Series	97.067		11,666	4,248
Narrow Banding Relic	97.067		5,700	3,117
Unified Planning	97.067		52,194	23,851
KC EMA Planning	97.067		40,000	22,239

**COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2010**

**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 Homeland Security (Continued)				
Awareness Instructor Fees	97.068		1,000	50
RR16 Training	97.068		7,890	882
Code Orange Airport Security	97.067		11,074	2,984
Airport Security	97.090		358,234	78,020
Total U.S. Department of Homeland Security			715,439	152,754
U.S. Department of Commerce				
Radio Cache Grant	11.555		16,416	906
CONOPS MDT Grant	11.555		205,571	10,344
Total U.S. Department of Commerce			221,987	11,250
U.S. Department of Energy				
Energy Efficient Conservation Block Grant	81.128		174,900	5,000
Total U.S. Department of Energy			174,900	5,000
U.S. Department of Justice				
Passed Through Maine Department of Human Services				
Crime Victims Assistance	16.575	CFS-10-2304	40,391	20,195
Crime Victims Assistance	16.575	CFS-11-2304	46,543	25,347
JAG Grant	16.804		27,823	120
Total U.S. Department of Justice			114,757	45,662
Total			8,190,939	5,110,112

COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

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.

NOTE B – PASS-THROUGH AWARDS

The County of Knox, Maine receives certain federal awards in the form of pass-through awards from the State of Maine. Such amounts received as pass-through awards are specifically identified on the Schedule.

NOTE C – MAJOR PROGRAMS

In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are determined by the independent auditor to be major programs.