

COUNTY OF KNOX, MAINE

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE YEAR ENDED
DECEMBER 31, 2011*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2011**

TABLE OF CONTENTS

PAGE(S)

INDEPENDENT AUDITOR'S REPORT 1 - 2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3 - 7

BASIC FINANCIAL STATEMENTS

EXHIBIT

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A Statement of Net Assets 8

B Statement of Activities 9

FUND FINANCIAL STATEMENTS

C Balance Sheet - Governmental Funds 10-11

D Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds 12-13

E Statement of Fiduciary Net Assets 14

NOTES TO THE FINANCIAL STATEMENTS 15-29

EXHIBIT

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

F Budgetary Comparison Schedule 30

OTHER SUPPLEMENTARY INFORMATION

EXHIBIT

GENERAL FUND

A-1 Statement of Estimated and Actual Revenues - Budgetary Basis 31

A-2 Statement of Appropriations, Expenditures
 and Encumbrances - Budgetary Basis 32-33

A-3 Statement of Changes in Unassigned Fund Balance - Budgetary Basis 34

GENERAL RESERVES

A-4 Combining Balance Sheet 35

A-5 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance 36

A-6 Statement of Activity - Reserve Funds 37

SPECIAL REVENUE FUNDS

B-1 Combining Balance Sheet 38-39

B-2 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance 40-42

CAPITAL PROJECT FUNDS

C-1 Combining Balance Sheet 43-44

C-2 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balance 45-46

C-3 Statement of Activity - Capital Improvements 47

TRUST AND AGENCY FUNDS

D-1 Statement of Changes in Assets and Liabilities - Agency Funds 48

COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2011

TABLE OF CONTENTS

PAGE(S)

SINGLE AUDIT ACT
INDEPENDENT AUDITOR'S REPORTS AND SCHEDULES

Report On Compliance and On Internal Control Over Financial Reporting Based On An Audit of Financial Statements Performed in Accordance With Government Auditing Standards	49-50
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	51-52
SCHEDULES	
I Summary Schedule of Prior Audit Findings	53
II Schedule of Findings and Questioned Costs	54-55
III Schedule of Expenditures of Federal Awards	56-57
Notes to Schedule of Expenditures of Federal Awards	58

INDEPENDENT AUDITOR'S REPORT

June 8, 2012

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, 2011, 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2012 on our consideration of the County of Knox, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 30 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Knox, Maine's financial statements as a whole. 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 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Respectfully Submitted,

James W. Wadman, C.P.A.

James W. Wadman, C.P.A.

County of Knox
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2011

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, 2011. 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, 2011 by \$27,485,239 (presented as “net assets”). Of this amount, \$2,843,604 was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the County's ongoing obligations to citizens and creditors.

Changes in Net Assets – The County's total net assets decreased by \$37,135 (a .1 % decrease) for the fiscal year ended December 31, 2011.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2011, the County's governmental funds reported a combined ending fund balance of \$3,141,028 with \$1,143,860 being general unassigned fund balance. This unassigned fund balance represents approximately 34% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations increased by \$136,903 (100%) during the current fiscal year. A new lease was issued for simulcast equipment. Additional information on the County's debt can be found in Note 3D of the notes to the financial statements on page 22 of this report.

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

89% 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.

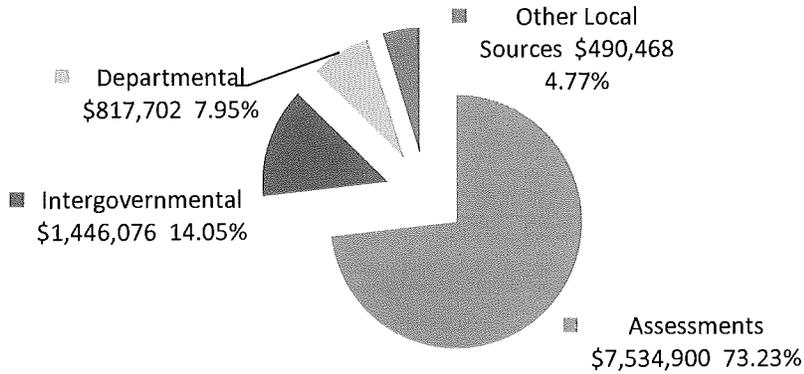
	<u>Total 2011</u>	<u>Total 2010</u>
Current Assets	3,439,049	3,377,923
Capital Assets	24,687,862	24,759,925
Total Assets	<u>28,126,911</u>	<u>28,137,848</u>
Current Liabilities	548,833	615,474
Other Liabilities	92,839	
Total Liabilities	<u>641,672</u>	<u>615,474</u>
Net Assets:		
Invested in Capital Assets	24,550,959	24,759,925
Restricted	90,676	204,362
Unrestricted	2,843,604	2,558,087
Total Net Assets	<u>27,485,239</u>	<u>27,522,374</u>
Total Liabilities and Net Assets	<u>28,126,911</u>	<u>28,137,848</u>

Changes in Net Assets

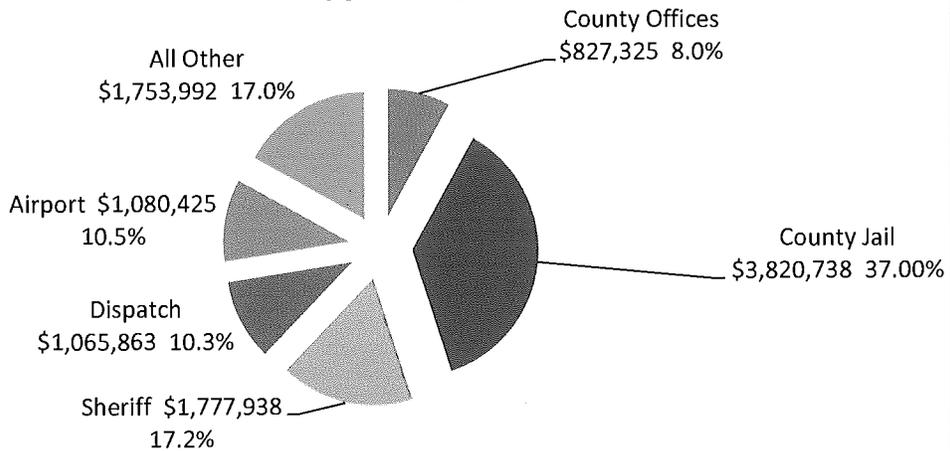
Approximately 73 percent of the County's total revenue came from assessments, approximately 14 percent came from State subsidies and grants, and approximately 13 percent came from services, investment earnings and other sources. Depreciation expense on the District's governmental assets represents \$828,054 of the total expenditures for the fiscal year.

	<u>Total 2011</u>	<u>Total 2010</u>
Revenues:		
District Assessments	7,534,900	7,481,558
Intergovernmental Revenues	1,446,076	5,296,066
Departmental Revenues	817,702	840,900
Other Local Sources	490,468	587,999
Total	<u>10,289,146</u>	<u>14,206,523</u>
Expenses:		
Emergency Management Agency	369,670	264,499
District Attorney	400,560	385,833
Administration & Information Tech.	595,052	547,310
County Finance	232,273	207,475
Building Maintenance	279,598	313,338
Debt Service	20,975	14,821
County Jail	3,820,738	3,638,963
Registry of Deeds	262,848	258,382
Probate Court	203,826	210,319
Sheriff's Patrol	1,777,938	1,709,965
Dispatch	1,065,863	846,076
Capital Outlay	-	23,708
Airport	1,080,425	1,605,499
All Other	216,515	219,159
	<u>10,326,281</u>	<u>10,245,347</u>
Changes in Net Assets	<u>(37,135)</u>	<u>3,961,176</u>

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 \$3,141,028 an increase of \$145,692 in comparison with the prior year. 43% percent of this total amount constitutes unassigned fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- \$13,042 positive variance in deeds fees. The revenue variance is due to higher volume than expected/budgeted.
- \$15,698 positive variance in executive contractual services. This is due to less than anticipated expense in computer consulting and internet services due to projects not moving as quickly as planned. This is also the first year of partial contracted IT.
- \$65,235 positive variance in building maintenance capital outlay. This is due to delay in projects. Funding was moved to reserve account to complete at a later date.
- \$12,718 positive variance in risk management pool insurance. This is due to expense coming in less than budgeted.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities amounts to \$31,164,352 net of accumulated depreciation of \$6,476,490 leaving a net book value of \$24,687,862.

Additional information on the County'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, 2011**

Exhibit A

<i>Assets</i>	<u><i>Governmental Activities</i></u>
Cash and Equivalents	1,438,201
Investments	1,365,999
Accounts Receivable	112,799
Prepaid Expenditures	
Due from Other Governments	522,050
Capital Assets:	
Land	2,126,236
Other Capital Assets, Net of Depreciation	<u>22,561,626</u>
Total Assets	<u><u>28,126,911</u></u>
 <i>Liabilities and Net Assets</i>	
Liabilities	
Accounts Payable	2,565
Retainage Payable	
Accrued Salaries	114,766
Compensated Absences	387,438
Long-term Liabilities:	
Due Within One Year	44,064
Due in More Than One Year	<u>92,839</u>
 Total Liabilities	 <u>641,672</u>
Net Assets	
Investment in Capital Assets, net of Related Debt	24,550,959
Restricted Net Assets	90,676
Unrestricted	<u>2,843,604</u>
 Total Net Assets	 <u>27,485,239</u>
Total Liabilities and Net Assets	<u><u>28,126,911</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, 2011**

Exhibit B

<i>Functions/Programs</i>	<i>Program Revenues</i>			<i>Total</i>
	<i>Expenses</i>	<i>Fees, Fines, and Charges for Services</i>	<i>Operating Grants</i>	
<i>Primary Government</i>	<i>Net (Expense) Revenue and Changes in Net Assets</i>			
<i>Governmental Activities</i>				
Emergency Management Agency	369,670	6,151	51,511	(312,008)
District Attorney	400,560	19,571	46,543	(334,446)
Administration & Information Tech.	595,052			(595,052)
County Finance	232,273	1,250		(231,023)
Building Maintenance	279,598	99,669		(179,929)
Debt Service	20,975			(20,975)
County Jail	3,820,738	56,869	462,665	(3,301,204)
Registry of Deeds	262,848			(262,848)
Probate Court	203,826	91,784		(112,042)
Sheriff's Patrol	1,777,938	254,869	13,287	(1,509,782)
Dispatch	1,065,863		4,955	(1,060,908)
Airport	1,080,425	279,371	94,619	(706,435)
All Other	216,515			(216,515)
<i>Total Governmental Activities</i>	<u>10,326,281</u>	<u>809,534</u>	<u>673,580</u>	<u>(8,843,167)</u>
<i>Total Primary Government</i>	<u>10,326,281</u>	<u>809,534</u>	<u>673,580</u>	<u>(8,843,167)</u>
<i>General Revenues:</i>				
Assessments				7,534,900
Registry of Deeds Fees				416,106
Airport Federal and State Grants for Capital Assets & Infrastructure				397,607
Emergency Management Federal Grant for Capital Assets				373,049
Other Local Sources				84,370
<i>Total Revenues, Special Items and Transfers</i>				<u>8,806,032</u>
<i>Changes in Net Assets</i>				(37,135)
<i>Net Assets - Beginning</i>				27,522,374
<i>Net Assets - Ending</i>				<u>27,485,239</u>

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

**COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

*Exhibit C
Page 1 of 2*

<i>Assets</i>	<i>General Fund</i>	<i>Airport #30 Terminal Construction</i>	<i>Capital Improvements</i>	<i>Other Governmental Funds</i>	<i>Total</i>
Cash and Equivalents	1,420,408			17,793	1,438,201
Investments	649,712		650,574	65,713	1,365,999
Accounts Receivable	112,799				112,799
Due from Other Funds	551,939		79,074	6,830	637,843
Due from Other Governments		236,260		285,790	522,050
Total Assets	2,734,858	236,260	729,648	376,126	4,076,892
 <i>Liabilities and Fund Balance</i>					
<i>Liabilities</i>					
Accounts Payable	2,565				2,565
Accrued Salaries	114,766				114,766
Due to Other Funds	79,181	237,276	34,157	287,229	637,843
Deferred Revenues	180,690				180,690
Total Liabilities	377,202	237,276	34,157	287,229	935,864
 <i>Fund Balances</i>					
Restricted				90,676	90,676
Committed	795,621		695,491	-	1,491,112
Assigned	194,644				194,644
Unassigned	1,367,391	(1,016)		(1,779)	1,364,596
Total Fund Balances	2,357,656	(1,016)	695,491	88,897	3,141,028
Total Liabilities and Fund Balances	2,734,858	236,260	729,648	376,126	4,076,892

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Exhibit C
Page 2 of 2

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

Total Fund Balance	3,141,028
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$6,476,491	<u>24,687,862</u>
	<u>24,687,862</u>
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Capital Leases	(136,903)
Deferred Revenues - Other	<u>180,690</u>
	<u>43,787</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>(387,438)</u>
	<u>(387,438)</u>
Net Assets of Governmental Activities	<u><u>27,485,239</u></u>

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

COUNTY OF KNOX
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit D
Page 1 of 2

	<i>General</i> <i>Fund</i>	<i>Airport</i> <i>#30 Terminal</i> <i>Construction</i>	<i>Capital</i> <i>Improvements</i>	<i>Other</i> <i>Governmental</i> <i>Funds</i>	<i>Total</i> <i>Governmental</i> <i>Funds</i>
Revenues					
Assessments	7,534,900				7,534,900
Intergovernmental Revenues	610,635	78,125		757,316	1,446,076
Departmental Revenues	817,702				817,702
Other Local Sources	419,080		59,074	12,314	490,468
Total Revenues	9,382,317	78,125	59,074	769,630	10,289,146
Expenditures					
Emergency Management Agency	99,448			234,106	333,554
District Attorney	327,156			73,397	400,553
County Commissioners	581,773				581,773
County Treasurer	231,785				231,785
Building Maintenance	352,902		19,340		372,242
Debt Service	20,975				20,975
County Jail	3,682,268				3,682,268
Registry of Deeds	262,671				262,671
Probate Court	203,214				203,214
Sheriff's Patrol	1,676,475		73,174	126,390	1,876,039
Dispatch	1,133,165			113,007	1,246,172
Airport	454,178	87,023	10,806	338,686	890,693
All Other	214,976			1,539	216,515
Total Expenditures	9,240,986	87,023	103,320	887,125	10,318,454
Excess of Revenues					
Over (Under) Expenditures	141,331	(8,898)	(44,246)	(117,495)	(29,308)
Other Financing Sources (Uses)					
Lease Proceeds	175,000				175,000
Transfers from Other Funds	195,699	69,381	99,000	106,542	470,622
Transfers to Other Funds	(241,731)	(61,499)	(62,880)	(104,512)	(470,622)
Total Other Financing Sources (Uses)	128,968	7,882	36,120	2,030	175,000
Excess of Revenues and Other Financing					
Sources Over (Under) Expenditures	270,299	(1,016)	(8,126)	(115,465)	145,692
Fund Balance - January 1	2,087,357		703,617	204,362	2,995,336
Fund Balance - December 31	2,357,656	(1,016)	695,491	88,897	3,141,028

(Continued)

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

**COUNTY OF KNOX
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2011**

**Exhibit D
 Page 2 of 2**

Net change in fund balances - total governmental funds 145,692

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	767,637
Depreciation expense	(828,054)
Disposed capital assets	(11,646)

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

New Capital Lease	(175,000)
Capital lease principal payments	38,097

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	26,139
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Change in net assets of governmental activities	<u><u>(37,135)</u></u>
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COUNTY OF KNOX
 STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
 DECEMBER 31, 2011

Exhibit E

	Agency Fund		Totals
	Inmate Fund	DA Restitution	
<i>Assets</i>			
Cash and Equivalents	11,863	57,930	69,793
Total Assets	11,863	57,930	69,793
<i>Liabilities</i>			
Due to Victims		57,930	57,930
Due to Inmates	11,863		11,863
Total Liabilities	11,863	57,930	69,793

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

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011

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 capital improvements account for all the County funds designated for a capital purchases.

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

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, 2011**

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, 2011

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, 2011

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 Balances/Net Assets

Fund Balances

In accordance with Government Accounting Standards Board 54, fund balance reporting and governmental fund type definitions, the County classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through County commissioner voting and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the County Treasurer.

Unassigned – includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balance in other governmental funds.

The County considers restricted, committed, assigned, and unassigned amounts to be spent in that order when expenditures for which any of those amounts are available.

The County does not have a formal minimum fund balance policy.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

7. Fund Balances/Net Assets (continued)

Fund Balances

The County has identified December 31, 2011 fund balances on the balance sheet as follows:

	<i>General Fund</i>	<i>Airport #30 Terminal Construction</i>	<i>Capital Improvements</i>	<i>Other Governmental Funds</i>	<i>Total</i>
<u>Restricted</u>					
Wellness Grant				401	401
Victim/Witness Advocate Grant				3,022	3,022
Local Emergency Planning Committee				18,133	18,133
Energy Efficient Grant				65,713	65,713
Underage Drinking Grant				3,382	3,382
Airport Terminal Final Design				25	25
<u>Committed</u>					
Dare Program	9,801				9,801
Matching Grants Fund	20,311				20,311
General Reserves	735,000				735,000
Airport Security	30,509				30,509
Capital Improvements			695,491		695,491
<u>Assigned</u>					
Inmate Fund	194,644				194,644
<u>Unassigned</u>					
General Fund	1,146,662				1,146,662
Jail Fund	141,833				141,833
Airport Fund	11,844				11,844
Disptach Fund	69,854				69,854
EMPC Local Capacity Grant				(296)	(296)
Airport Crack Sealing & Repairs				(343)	(343)
Airport Snow Removal Equipment				(1,128)	(1,128)
Airport #30 Terminal Construction		(1,016)			(1,016)
Airport #33 Terminal Construction				(12)	(12)
Total Fund Balance	2,360,458	(1,016)	695,491	88,897	3,143,830

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

7. Fund Balances/Net Assets (continued)

Net Assets

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.

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.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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. 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 \$1,507,747 and the bank balance was \$1,919,780. Of the bank balance, \$606,489 was covered by federal depository insurance. The remaining \$1,313,292 was covered by a FHLB irrevocable letter of credit.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

B. Investments

At December 31, 2011, the County had the following investments, maturities, and credit ratings:

Type	Fair Value	Maturities in Years				Credit Rating	
		< 1	1-5	6-10	> 10	S&P	Moody's
<i>All Funds</i>							
U.S. Treasury Securities	1,365,999		1,365,999			AAA	AAA
	1,365,999	-	1,365,999	-	-		

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, 2011, the tax assessment was calculated as follows:

Assessed Valuation	
Real and personal estates	\$ 7,544,200,000
Unorganized territories	18,950,000
	<hr/>
Total assessed valuation	7,563,150,000
Tax rate	0.0008734
	<hr/>
Current tax commitment	\$ 6,605,595
	<hr/>
Appropriations	9,001,471
Overlay	129,521
	<hr/>
	9,130,992
Less:	
Estimated revenues	(2,525,397)
	<hr/>
Current tax commitment	\$ 6,605,595
	<hr/>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<i>Governmental Activities;</i>				
<i>Capital assets not being depreciated</i>				
Land	2,126,236			2,126,236
<i>Capital assets being depreciated</i>				
Buildings	9,704,108	180,038		9,884,146
Equipment	3,671,666	415,415	(126,102)	3,960,979
Infrastructure	15,020,808	172,183		15,192,991
<i>Total capital assets being depreciated</i>	28,396,582	767,636	(126,102)	29,038,116
<i>Less accumulated depreciation for</i>				
Buildings	2,399,296	200,543		2,599,839
Equipment	1,360,184	306,351	(114,457)	1,552,078
Infrastructure	2,003,413	321,160		2,324,573
<i>Total accumulated depreciation</i>	5,762,893	828,054	(114,457)	6,476,490
<i>Net capital assets being depreciated</i>	22,633,689	(60,418)	(11,645)	22,561,626
<i>Governmental Activities Capital Assets, net</i>	<u>24,759,925</u>	<u>(60,418)</u>	<u>(11,645)</u>	<u>24,687,862</u>

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

Governmental Activities

Emergency Management	71,116
District Attorney	518
County Commissioners	20,574
County Treasurer	106
County Jail	138,712
Sheriff's Patrol	115,534
Dispatch	23,557
Airport	457,937
Total Depreciation Expense - Governmental Activities	<u><u>828,054</u></u>

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

E. Capital Leases

The District is obligated under certain leases accounted for as capital leases. Obligations under capital leases have been recorded in the general long-term debt account group in the accompanying financial statements at the present value of future minimum lease payments. Future minimum lease payments under these capital leases and the net present value of the future minimum lease payments are as follows:

<i>Year Ended</i> <i>December 31</i>	<i>Minimum</i> <i>Lease</i> <i>Payment</i>
2013	48,886
2014	48,886
2015	48,886
Total Minimum Lease Payments	<u>146,658</u>
Less: Amount Representing Interest	<u>9,755</u>
Present Value of Future Minimum Lease Payments	<u><u>136,903</u></u>

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

F. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2011, were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	551,939	79,181
Special Revenue Funds		
EMPC Local Capacity		296
JAG Grant		4,067
Wellness Grant	401	
Victim/Witness Advocate Grant	3,022	
Local Emergency Planning Committee		12,683
Holiday HV Impaired Driving		2,520
2010 Homeland Security		113,103
Energy Efficient Grant		4,955
Underage Drinking Grant	3,382	
JAG Grant		880
Capital Project Funds		
Airport Crack Sealing & Repair		24,322
Airport Obstruction Analysis		76,637
Airport Snow Removal Equipment		1,235
Airport RSA/Wildlife Study		38,572
Airport Terminal Final Design	25	
Airport Pavement Maintenance		7,947
Airport #30 Terminal Construction		237,276
Airport #33 Terminal Construction		12
Capital Improvements	<u>79,074</u>	<u>34,157</u>
Totals	<u><u>637,843</u></u>	<u><u>637,843</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.

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

E. Interfund Receivables and Payables (continued)

Transfers To/From Other Funds at December 31, 2011, were as follows:

	<i>Transfers From</i>	<i>Transfers To</i>
General Fund	195,699	241,731
Special Revenue Funds		
Victim/Witness Advocate Grant	27,355	
Local Emergency Planning	495	
2009 Homeland Security		45,000
Summer High Visibility Grant		20
KCCHC Grant		1,798
Capital Projects		
Airport VALE Project	29,997	6,453
Airport Crack Sealing & Repair	3,500	1,342
Airport Obstruction Analysis	2,731	
Airport Snow Removal Equipment	380	
Airport RSA/Wildlife Study	75	1,252
Airport Terminal Study Bus. Plan	1,252	313
Airport Terminal Final Design	413	
Airport Pavement Maintenance	2,857	
Airport #30 Terminal Construction	69,381	61,499
Airport #31 Terminal Construction	27,296	46,888
Airport #33 Terminal Construction	10,191	1,446
Capital Improvements	99,000	62,880
Totals	470,622	470,622

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues in the General fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) transfer funds to general fund to cover expenditures voted on per County Commissioners.

NOTE 4 - OTHER INFORMATION

A. Contingent Liabilities

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

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

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans

The County has contributed for certain employees, to the Maine State Retirement System (MSRS), a cost-sharing multiple-employer defined benefits pension plan. The County has withdrawn from participation for new employees, but must continue to fund the benefits of current retirees and vested inactive members. The County is required to contribute an annual fee based on an actuarial valuation of the entire State plan. There was an unfunded liability of \$79,944 for 2009, an unfunded liability of \$69,982 for 2010, and an unfunded liability of \$45,448 for 2011.

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 \$165,678 and the participants have contributed \$71,424 for the year-ended December 31, 2011.

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

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

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

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

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

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 - OTHER INFORMATION (Continued)

B. Pension Plans (Continued)

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

C. Risk Management

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

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

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

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

COUNTY OF KNOX
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit F

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Assessments	3,341,560	3,341,560	3,341,560	-
Intergovernmental Revenues	51,360	51,360	53,351	1,991
Departmental Revenues	758,418	758,418	817,702	59,284
Other Local Sources	15,500	15,500	24,510	9,010
Total Revenues	4,166,838	4,166,838	4,237,123	70,285
Expenditures				
Emergency Management Agency	102,358	102,358	99,448	2,910
District Attorney	328,113	328,113	327,156	957
County Commissioners	513,758	513,758	495,703	18,055
County Treasurer	239,793	239,793	231,785	8,008
Building Maintenance	436,622	436,622	352,240	84,382
Debt Service	25,000	25,000	20,975	4,025
Registry of Deeds	245,187	245,187	241,671	3,516
Probate Court	206,682	206,682	203,214	3,468
Sheriff's Patrol	1,685,219	1,685,219	1,671,732	13,487
All Other	357,215	357,215	214,976	142,239
Total Expenditures	4,139,947	4,139,947	3,858,900	281,047
Excess Revenues Over Expenditures	26,891	26,891	378,223	351,332
Other Financing Sources (Uses)				
Transfers from Other Funds	-	-	1,818	1,818
Transfers to Other Funds	(26,891)	(26,891)	(202,355)	(175,464)
Total Other Financing Sources (Uses)	(26,891)	(26,891)	(200,537)	(173,646)
Excess of Revenues and Other Sources Over (Under) Expenditures	-	-	177,686	177,686
Unreserved Fund Balance - January 1			966,174	
Unreserved Fund Balance - December 31			1,143,860	

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Exhibit A-1

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Assessments	3,341,560	3,341,560	-
Intergovernmental Revenues			
Federal			
Emergency Management Agency	51,179	51,511	332
Wildlife Refuge Fees		1,678	1,678
State			
Fuel Reimbursement	181	162	(19)
	<u>51,360</u>	<u>53,351</u>	<u>1,991</u>
Departmental Revenue			
Treasurer - Investment Income	477	1,250	773
District Attorney	14,000	19,571	5,571
Building Maintenance	98,539	99,669	1,130
Registry of Deeds	355,000	388,965	33,965
Probate Court	78,500	88,604	10,104
Sheriff	211,902	219,643	7,741
	<u>758,418</u>	<u>817,702</u>	<u>59,284</u>
Other Local Sources			
Miscellaneous	15,500	24,510	9,010
	<u>15,500</u>	<u>24,510</u>	<u>9,010</u>
Operating Transfers In			
Transfers from Grants		1,818	1,818
Transfers from Reserves			-
	<u>-</u>	<u>1,818</u>	<u>1,818</u>
Total Revenues and Transfers	4,166,838	<u><u>4,238,941</u></u>	<u><u>72,103</u></u>
Fund Balance Used to Calculate Assessments			
Total	<u><u>4,166,838</u></u>		

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit A-2
Page 1 of 2

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Emergency Management Agency			
Personal Services	86,762	86,156	606
Contractual Services	9,396	8,001	1,395
Commodities	6,200	5,291	909
Capital Outlay			-
	102,358	99,448	2,910
District Attorney			
Personal Services	273,779	273,930	(151)
Contractual Services	35,416	34,312	1,104
Commodities	11,229	11,225	4
Capital Outlay	7,689	7,689	-
	328,113	327,156	957
Administration & Information Tech.			
Personal Services	239,707	238,597	1,110
Contractual Services	268,382	252,684	15,698
Commodities	5,669	4,422	1,247
Capital Outlay			-
	513,758	495,703	18,055
County Finance			
Personal Services	190,451	188,200	2,251
Contractual Services	44,781	39,052	5,729
Commodities	4,561	4,533	28
	239,793	231,785	8,008
Building Maintenance			
Personal Services	21,748	19,598	2,150
Contractual Services	265,902	253,277	12,625
Commodities	80,665	76,293	4,372
Capital Outlay	68,307	3,072	65,235
	436,622	352,240	84,382
Debt Service			
Interest - Tax Anticipation Note	25,000	20,975	4,025
	25,000	20,975	4,025

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

*Exhibit A-2
Page 2 of 2*

	<i>Budget</i>	<i>Actual</i>	<i>(Over) Under Budget</i>
Registry of Deeds			
Personal Services	166,336	166,045	291
Contractual Services	75,401	72,811	2,590
Commodities	3,450	2,815	635
	<hr/> 245,187	<hr/> .241,671	<hr/> 3,516
Probate Court			
Personal Services	185,159	184,709	450
Contractual Services	17,877	15,190	2,687
Commodities	3,646	3,315	331
Capital Outlay			0
	<hr/> 206,682	<hr/> 203,214	<hr/> 3,468
Sheriff's Patrol			
Personal Services	1,434,136	1,425,243	8,893
Contractual Services	139,584	132,681	6,903
Commodities	52,985	55,295	(2,310)
Capital Outlay	58,514	58,513	1
	<hr/> 1,685,219	<hr/> 1,671,732	<hr/> 13,487
Other			
Knox-Lincoln Extension Service	54,570	54,570	-
Knox-Lincoln Soil & Water	19,421	19,421	-
Eastern Maine Development	2,000	2,000	-
KWRED	45,000	45,000	-
Time and Tide RC&D	3,625	3,625	-
Mid Coast Regional Planning	2,500	2,500	-
Insurance	100,578	87,860	12,718
Overlay	129,521		129,521
	<hr/> 357,215	<hr/> 214,976	<hr/> 142,239
Transfers Out			
DA Grant	26,891	27,355	(464)
Reserves		175,000	(175,000)
	<hr/> 26,891	<hr/> 202,355	<hr/> (175,464)
Total Appropriations	<hr/> 4,166,838	<hr/> 4,061,255	<hr/> 105,583

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF CHANGES IN UNASSIGNED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit A-3

Unassigned Fund Balance - January 1, 2011	966,174	
Unassigned Fund Balance - December 31, 2011	<u>1,143,860</u>	
Increase (Decrease)		<u><u>177,686</u></u>
Analysis of Change		
Additions		
Budget Summary		
Revenue Surplus (Exhibit A-1)	72,103	
Unexpended (Overdraft) Balance of		
Appropriations (Exhibit A-2)	<u>105,583</u>	
Budget Surplus (Deficit)		<u>177,686</u>
Deductions		
Fund Balance Used		
to Calculate Assessments		<u>-</u>
Increase (Decrease)		<u><u>177,686</u></u>

**COUNTY OF KNOX
ALL GENERAL RESERVES
COMBINING BALANCE SHEET
DECEMBER 31, 2011**

Exhibit A-4

<i>Assets</i>	<i>Dare Program</i>	<i>Matching Grants Fund</i>	<i>General Reserves</i>	<i>Jail Fund</i>	<i>Airport Fund</i>	<i>Inmate Fund</i>	<i>Dispatch Fund</i>	<i>Totals</i>
Cash and Equivalents						194,644		194,644
Investments	9,801	20,311	619,600					649,712
Accounts Receivable			3,437	371	41,353		270	45,431
Due from Other Funds			111,963	369,942	6,952		82,650	571,507
Total Assets	9,801	20,311	735,000	370,313	48,305	194,644	82,920	1,461,294
<i>Liabilities and Fund Balances</i>								
Liabilities								
Accrued Salaries				47,790	5,952		13,066	66,808
Deferred Revenues				180,690				180,690
Total Liabilities	-	-	-	228,480	5,952	-	13,066	247,498
Fund Balances								
Committed	9,801	20,311	735,000		30,509			795,621
Assigned						194,644		194,644
Unassigned				141,833	11,844		69,854	223,531
Total Fund Balances	9,801	20,311	735,000	141,833	42,353	194,644	69,854	1,213,796
Total Liabilities and Fund Balances	9,801	20,311	735,000	370,313	48,305	194,644	82,920	1,461,294

**COUNTY OF KNOX
ALL GENERAL RESERVES
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Exhibit A-5

	<i>Dare Program</i>	<i>Matching Grants Fund</i>	<i>General Reserves</i>	<i>Jail Fund</i>	<i>Airport Fund</i>	<i>Inmate Fund</i>	<i>Dispatch Fund</i>	<i>Totals</i>
Revenues								
Assessments				3,188,700	75,335		929,305	4,193,340
Intergovernmental Revenues								
Federal				5,200	94,619			99,819
State				457,465				457,465
Interest	189	395	12,895					13,479
Fair Value Increase (Decrease)	154	330	9,384					9,868
Other Local Sources			33,620	13,847	279,371	43,022	1,363	371,223
Total Revenues	343	725	55,899	3,665,212	449,325	43,022	930,668	5,145,194
Expenditures								
Personnel Services				2,409,804	309,666		693,167	3,412,637
Contract Services				998,583	106,268		132,245	1,237,096
Commodities				203,736	18,498		6,779	229,013
Capital Outlay				12,202	9,750		300,974	322,926
Maintenance and Supplies						57,943		57,943
Reserve Funds			122,471					122,471
Total Expenditures	-	-	122,471	3,624,325	444,182	57,943	1,133,165	5,382,086
Excess of Revenues Over (Under) Expenditures	343	725	(66,572)	40,887	5,143	(14,921)	(202,497)	(236,892)
Other Financing Sources (Uses)								
Lease Proceeds							175,000	175,000
Transfers from Other Funds			122,384				71,497	193,881
Transfers to Other Funds		(495)	(33,481)				(5,400)	(39,376)
Total Other Financing Sources (Uses)	-	(495)	88,903	-	-	-	241,097	329,505
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	343	230	22,331	40,887	5,143	(14,921)	38,600	92,613
Fund Balance - January 1	9,458	20,081	712,669	100,946	37,210	209,565	31,254	1,121,183
Fund Balance - December 31	9,801	20,311	735,000	141,833	42,353	194,644	69,854	1,213,796

**COUNTY OF KNOX
GENERAL RESERVES
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2011**

Exhibit A-6

<i>Reserve Fund</i>	<i>Fund Balance January 1</i>	<i>New Funds</i>	<i>Transfers From Other Funds</i>	<i>Interest</i>	<i>Increase (Decrease) in Fair Value</i>	<i>Transfers To Other Funds</i>	<i>Expenditures</i>	<i>Fund Balance December 31</i>
Airport Computer	11,730			230	183		(901)	11,242
Airport Terminal Building	8,729			452	(86)		(9,095)	-
Contingency	100,830			1,890	1,589			104,309
Courthouse Computer	23,788		10,000	435	377			34,600
Courthouse Furniture/Fixtures	12,684			244	193		(662)	12,459
Deeds Surcharge	51,707	27,141		989	903		(21,000)	59,740
Dispatch Computer	8,599			162	135			8,896
Dispatch Miscellaneous	44,939		5,400	667	307	(26,497)		24,816
Dispatch Renovations	128			14	4			146
EMA Disaster Fund	19,635			326	301			20,262
Forfeiture Money - State	81,268			1,626	1,298			84,192
Generator Reserve		3,299						3,299
Health Insurance	39,360			788	628			40,776
Jail Computer	14,572			292	234			15,098
Jail Professional Services	35,889			718	572			37,179
Jail Training	7,756			155	124			8,035
Legal	67,762		100,000	1,037	316		(57,646)	111,469
Maine Retirement	6,984					(6,984)		-
Probate Surcharge	17,707	3,180		384	330			21,601
Resignation Benefits	53,882		6,984	627	454		(25,283)	36,664
Safety	12,605			252	203			13,060
Security Deposit	801			16	13			830
Sheriff's Computer	28,974			543	382		(4,743)	25,156
Unemployment	62,340			1,048	924		(3,141)	61,171
Total	712,669	33,620	122,384	12,895	9,384	(33,481)	(122,471)	735,000

COUNTY OF KNOX
 GRANT FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2011

Exhibit B-1
 Page 1 of 2

<i>Assets</i>	<i>EMPC Local Capacity</i>	<i>JAG Grant</i>	<i>Wellness Grant</i>	<i>Victim Witness Advocate Grant</i>	<i>Local Emergency Planning Committee</i>	<i>Holiday HV Impaired Driving Enforcement</i>
Cash and Equivalents					17,793	
Investments						
Due from Other Governments		4,067			13,023	2,520
Due from Other Funds			401	3,022		
Total Assets	-	4,067	401	3,022	30,816	2,520
 <i>Liabilities and Fund Balances</i>						
Liabilities						
Due to Other Funds	296	4,067			12,683	2,520
Total Liabilities	296	4,067			12,683	2,520
Fund Balances						
Restricted			401	3,022	18,133	
Unassigned	(296)					
Total Fund Balances	(296)	-	401	3,022	18,133	-
Total Liabilities and Fund Balances	-	4,067	401	3,022	30,816	2,520

**COUNTY OF KNOX
GRANT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011**

*Exhibit B-1
Page 2 of 2*

<i>Assets</i>	<i>2010 Homeland Security</i>	<i>Energy Efficient Grant</i>	<i>Underage Drinking Grant</i>	<i>JAG Grant</i>	<i>Totals</i>
Cash and Equivalents					17,793
Investments		65,713			65,713
Due from Other Governments	113,103	4,955		880	138,548
Due from Other Funds			3,382		6,805
Total Assets	113,103	70,668	3,382	880	228,859
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Due to Other Funds	113,103	4,955		880	138,504
Total Liabilities	113,103	4,955		880	138,504
 Fund Balances					
Restricted		65,713	3,382		90,651
Unassigned					(296)
Total Fund Balances	-	65,713	3,382	-	90,355
Total Liabilities and Fund Balances	113,103	70,668	3,382	880	228,859

**COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2011**

*Exhibit B-2
 Page 1 of 3*

	<i>Emergency Management Performance</i>	<i>JAG Grant</i>	<i>EMPC Local Capacity</i>	<i>Wellness Grant</i>	<i>Victim/Witness Advocate Grant</i>
Revenues					
Intergovernmental Revenues					
Federal	39,486	4,067			46,543
State					
Other			317	1,940	
Fair Value Increase (Decrease)					
Interest					
Total Revenues	<u>39,486</u>	<u>4,067</u>	<u>317</u>	<u>1,940</u>	<u>46,543</u>
Expenditures					
Personnel Services					45,766
Contract Services					359
Commodities				1,539	
Capital Outlay	39,486	4,067	613		
Other Governments					27,272
Total Expenditures	<u>39,486</u>	<u>4,067</u>	<u>613</u>	<u>1,539</u>	<u>73,397</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(296)</u>	<u>401</u>	<u>(26,854)</u>
Other Financing Sources (Uses)					
Transfers from Other Funds					27,355
Transfers to Other funds					
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,355</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(296)</u>	<u>401</u>	<u>501</u>
Fund Balance - January 1					<u>2,521</u>
Fund Balance - December 31	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(296)</u></u>	<u><u>401</u></u>	<u><u>3,022</u></u>

COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<i>Local Emergency Planning Committee</i>	<i>Holiday HV Impaired Driving Enforcement</i>	<i>2009 Homeland Security</i>	<i>2010 Homeland Security</i>	<i>Summer High Visibility Grant</i>
Revenues					
Intergovernmental Revenues					
Federal	175,460	2,520	45,000	113,103	
State					
Other	6,099				
Fair Value Increase (Decrease)					
Interest	52				
Total Revenues	<u>181,611</u>	<u>2,520</u>	<u>45,000</u>	<u>113,103</u>	<u>-</u>
Expenditures					
Personnel Services	10,874	2,520			
Contract Services	831				
Commodities					
Capital Outlay				113,103	
Other Governments	182,302				
Total Expenditures	<u>194,007</u>	<u>2,520</u>	<u>-</u>	<u>113,103</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>(12,396)</u>	<u>-</u>	<u>45,000</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)					
Transfers from Other Funds	495				
Transfers to Other funds			(45,000)		(20)
Total Other Financing Sources (Uses)	<u>495.00</u>	<u>-</u>	<u>(45,000.00)</u>	<u>-</u>	<u>(20.00)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(11,901)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Fund Balance - January 1	<u>30,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
Fund Balance - December 31	<u>18,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

COUNTY OF KNOX
ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<i>Energy Efficient Grant</i>	<i>Underage Drinking Grant</i>	<i>KCCHC Grant</i>	<i>Buckle-Up No Excuses</i>	<i>JAG Grant</i>	<i>Totals</i>
Revenues						
Intergovernmental Revenues						
Federal	4,955			2,000	4,700	437,834
State						-
Other						8,356
Fair Value Increase (Decrease)	896					896
Interest	3,010					3,062
Total Revenues	8,861	-	-	2,000	4,700	450,148
Expenditures						
Personnel Services						
Contract Services				2,000		61,160
Commodities						1,190
Capital Outlay	112,939				4,700	1,539
Other Governments	68					274,908
Total Expenditures	113,007	-	-	2,000	4,700	209,642
Excess of Revenues Over (Under) Expenditures	(104,146)	-	-	-	-	(98,291)
Other Financing Sources (Uses)						
Transfers from Other Funds						27,850
Transfers to Other Funds			(1,798)			(46,818)
Total Other Financing Sources (Uses)	-	-	(1,798)	-	-	(18,968)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(104,146)		(1,798)			(117,259)
Fund Balance - January 1	169,859	3,382	1,798			207,614
Fund Balance - December 31	65,713	3,382	-	-	-	90,355

**COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011**

*Exhibit C-1
Page 1 of 2*

<i>Assets</i>	<i>Airport Crack Sealing & Repairs</i>	<i>Airport Obstruction Analysis</i>	<i>Airport Snow Removal Equipment</i>	<i>Airport RSA/Wildlife Study</i>	<i>Airport Terminal Final Design</i>
Investments					
Due from Other Funds					25
Due from Other Governments	23,979	76,637	107	38,572	
Total Assets	23,979	76,637	107	38,572	25
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Due to Other Funds	24,322	76,637	1,235	38,572	
Total Liabilities	24,322	76,637	1,235	38,572	-
Fund Balances					
Restricted					25
Committed					
Unassigned	(343)		(1,128)		
Total Fund Balances	(343)	-	(1,128)	-	25
Total Liabilities and Fund Balances	23,979	76,637	107	38,572	25

**COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2011**

*Exhibit C-1
Page 2 of 2*

<i>Assets</i>	<i>Airport Pavement Maintenance</i>	<i>Airport #30 Terminal Construction</i>	<i>Airport #33 Terminal Construction</i>	<i>Capital Improvements</i>	<i>Totals</i>
Investments				650,574	650,574
Due from Other Funds				79,074	79,099
Due from Other Governments	7,947	236,260			383,502
Total Assets	7,947	236,260	-	729,648	1,113,175
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Due to Other Funds	7,947	237,276	12	34,157	420,158
Total Liabilities	7,947	237,276	12	34,157	420,158
Fund Balances					
Restricted					25
Committed				695,491	695,491
Unassigned		(1,016)	(12)		(2,499)
Total Fund Balances	-	(1,016)	(12)	695,491	693,017
Total Liabilities and Fund Balances	7,947	236,260	-	729,648	1,113,175

**COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2011**

*Exhibit C-2
 Page 1 of 2*

	<i>Airport VALE Project</i>	<i>Airport Crack Sealing & Repairs</i>	<i>Airport Obstruction Analysis</i>	<i>Airport Snow Removal Equipment</i>	<i>Airport RSA/Wildlife Study</i>	<i>Airport Terminal Study Bus. Plan</i>
Revenues						
Intergovernmental Revenues						
Federal	5,247	133,004	103,759	14,447	2,838	
State	138	3,500	2,730	380	75	
Total Revenues	5,385	136,504	106,489	14,827	2,913	-
Expenditures						
Engineering Services	28,719	49,700	108,972	13,099	1,576	
Construction		88,243				
Professional Services	210		175	558	140	139
All Other		1,062	73	614	20	
Total Expenditures	28,929	139,005	109,220	14,271	1,736	139
Excess of Revenues Over (Under) Expenditures	(23,544)	(2,501)	(2,731)	556	1,177	(139)
Other Financing Sources (Uses)						
Transfers from Other Funds	29,997	3,500	2,731	380	75	1,252
Transfers to Other Funds	(6,453)	(1,342)			(1,252)	(313)
Total Other Financing Sources (Uses)	23,544	2,158	2,731	380	(1,177)	939
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(343)	-	936	-	800
Fund Balance - January 1	-	-	-	(2,064)	-	(800)
Fund Balance - December 31	-	(343)	-	(1,128)	-	-

COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit C-2
Page 2 of 2

	<i>Airport Terminal Final Design</i>	<i>Airport Pavement Maintenance</i>	<i>Airport #30 Terminal Construction</i>	<i>Airport #31 Terminal Construction</i>	<i>Airport #33 Terminal Construction</i>	<i>Capital Improvements</i>	<i>Totals</i>
Revenues							
Intergovernmental Revenues							
Federal		32,741	68,493		21,202		381,731
State		(1,134)	9,632		555		15,876
Local Sources						59,074	59,074
Total Revenues	-	31,607	78,125	-	21,757	59,074	456,681
Expenditures							
Engineering Services		34,558	52,394		30,101		319,119
Construction		(318)	34,202	(20,000)			102,127
Professional Services		211	403	359	360		2,555
All Other		13	24	49	53	103,320	105,228
Total Expenditures	-	34,464	87,023	(19,592)	30,514	103,320	529,029
Excess of Revenues Over (Under)							
Expenditures	-	(2,857)	(8,898)	19,592	(8,757)	(44,246)	(72,348)
Other Financing Sources (Uses)							
Transfers from Other Funds	413	2,857	69,381	27,296	10,191	99,000	247,073
Transfers to Other Funds			(61,499)	(46,888)	(1,446)	(62,880)	(182,073)
Total Other Financing Sources (Uses)	413	2,857	7,882	(19,592)	8,745	36,120	65,000
Excess of Revenues and Other Sources Over (Under)							
Expenditures and Other Uses	413	-	(1,016)	-	(12)	(8,126)	(7,348)
Fund Balance - January 1	(388)	-	-	-	-	703,617	700,365
Fund Balance - December 31	25	-	(1,016)	-	(12)	695,491	693,017

**COUNTY OF KNOX
 CAPITAL IMPROVEMENTS
 STATEMENT OF ACTIVITY
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Exhibit C-3

	<i>Fund Balance January 1</i>	<i>New Funds</i>	<i>Transfers From Other Funds</i>	<i>Interest</i>	<i>Increase (Decrease) in Fair Value</i>	<i>Transfers To Other Funds</i>	<i>Expenditures</i>	<i>Fund Balance December 31</i>
<i>Reserve Fund</i>								
Courthouse Maintenance	41,066		99,000	1,313	1,160			142,539
Forfeiture Money - Federal	231,186			4,489	3,509		(9,977)	229,207
Jail Capital	96,729			1,692	1,322			99,743
Jail Vehicle	9,049			181	145			9,375
Knox County Building	180,617			2,708	2,039	(34,000)	(19,340)	132,024
Sheriff's Vehicle	28,759	35,226		34	(5)		(63,197)	817
Airport	32,363			1,847	163			34,373
Airport Miscellaneous Equipment	34,456			832	447	(1,448)	(10,004)	24,283
Airport Projects	49,392			1,249	723	(27,432)	(802)	23,130
Total	703,617	35,226	99,000	14,345	9,503	(62,880)	(103,320)	695,491

COUNTY OF KNOX
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2011

Exhibit D-1

	<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	14,091	91,934	(94,162)	11,863
<i>Liabilities</i>				
Due to Inmates	14,091	91,934	(94,162)	11,863

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

June 8, 2012

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, 2011, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated May 16, 2012. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2011-01 and 2011-02.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There were no significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Knox, Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-03.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 8, 2012

County Commissioners
County of Knox
Rockland, Maine 04841

Compliance

We have audited County of Knox, Maine's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the County of Knox, Maine's major federal programs for the year ended December 31, 2011. The County of Knox, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Knox, Maine's management. Our responsibility is to express an opinion on the County of Knox, Maine's compliance based on our audit.

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

In our opinion, the County of Knox, Maine complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-03.

Internal Control over Compliance

Management of the County of Knox, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and

performing our audit, we considered the County of Knox, Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

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

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

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, 2011

2010-01 District Attorney Restitution Account

Condition: During the audit it discovered 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, cash was not safeguarded.

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.

Current Year Status: Weekly deposits are being made and the cash box is in a locked safe with limited access. Reconciliations of the restitution accounts are not up to date due to time constraints.

2010-02 Financial Statement Preparation

Condition: Based on 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.

Current Year Status: The auditor continues to prepare the financial statements. Management continues to take responsibility for the financial statements.

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

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. Two reportable conditions relating to the audit of the financial statements are reported in the *Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The conditions are reported as a material weaknesses.
3. No instances of noncompliance material to the financial statements of the County of Knox, Maine were disclosed during the audit.
4. One reportable conditions 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 programs tested as a major programs are :
 - FAA – Airport Improvements CFDA # 20.106.
 - Homeland Security Cluster CFDA# 97.067
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

2011-01 District Attorney Restitution Account

Condition: During the audit it the restitution accounts were reviews. The old money received is still not being 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.

Effect: A large amount of cash has been sitting in an old checking account, which is due to victims.

Recommendation: We also recommend reconciling the remainder of the restitution accounts and pay victims on a timely basis.

Response: Management concurs with the recommendation. The DA's office will be reconciling the restitution accounts.

2011-02 Financial Statement Preparation

Condition: Based on 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

2011-03

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 23 for testing and noted 3 instances in which the employee was not being paid the prevailing wages according to the Department of Labor wages determination sheet.

Questioned Costs: None

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

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

Management's Response: Management concurs with the finding. Restitution has not been paid to the employee as of June 8, 2012. They also agree to have the engineer monitor the contractor's to be in full compliance with the Davis Bacon Act.

**COUNTY OF KNOX
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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				
Summer High Visibility	20.600	SCE 10-069	6,400	20
Holiday HV Impaired Driving Enforcement	20.601	HE 12-037	4,872	2,520
Buckle Up - No Excuses	20.609	OP 11-134	2,000	2,000
			<hr/>	<hr/>
			13,272	4,540
Federal Aviation Administration				
Airport Improvements - RSA/Wildlife Study	* 20.106		125,000	1,736
Airport Improvements - Terminal Study Business	* 20.106		75,000	139
Airport Improvements - Terminal Construction	* 20.106		2,226,410	67,023
Airport Improvements - Snow Removal Equipment	* 20.106		235,000	14,271
Airport Improvements - Crack Sealing and Crack Repairs	* 20.106		145,000	139,005
Airport Improvements - VALE	* 20.106		150,472	28,929
Airport Improvements - Terminal Construction	* 20.106		579,352	408
Airport Improvements - Pavement	* 20.106		152,000	34,464
Airport Improvements - Obstruction Analysis	* 20.106		199,300	109,220
Airport Improvements - Terminal Construction	* 20.106		2,124,922	30,514
Total Federal Aviation Administration			<hr/>	<hr/>
			6,012,456	425,709
Total U.S. Department of Transportation			<hr/>	<hr/>
			6,025,728	430,249
U.S. Department of Homeland Security				
MDT Phase 2	* 97.067	HM8036	118,770	3,964
Exercise Series	* 97.067	HM8040	11,666	758
Unified Planning	* 97.067	HM8035	52,194	28,362
KC EMA Planning	* 97.067	HM8044	40,000	17,215
Code Orange Airport Security	* 97.067	2010-SS-T0-0090	11,074	3,870
2009 Homeland Security	* 97.067	2009-SS-T9-0077	45,000	45,000
2010 Homeland Security	* 97.067	2010-SS-T0-0090	113,103	113,103
Full Scale Exercise	* 97.067	HMG8026	4,224	500
HSGP Rev 911	* 97.067	HM8045	35,242	35,242
HSGP Antennas, Other Equip.	* 97.067	HM8046	30,865	22,500
EMA Exercise	* 97.067	HM8050	10,575	2,109
Races/Cert/EmComm	* 97.067	HM8051	8,648	8,196
Rapid Response Traf Cnt	* 97.067	HM8052	13,791	12,696

COUNTY OF KNOX
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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>
Mid-Coast Reg. Pooled	*	97.067	30,000	15,000
HSPG Emergency Planner	*	97.067	40,000	5,631
			<u>565,152</u>	<u>314,146</u>
Hazmat Ops Training	97.020		29,606	840
Hazard Mitigation Review	97.039		18,750	120
2009 Emergency Mgmt. Performance Grant	97.039		39,486	39,486
Pre Disaster Mitigation Planning	97.047		20,000	3,243
Cert / Ares / Races	97.053		7,000	3,467
Airport Security	97.090		358,234	102,818
Total U.S. Department of Homeland Security			<u>1,038,228</u>	<u>464,120</u>
U.S. Department of Health and Human Services				
Pandemic Influenza Planning	93.069	HMG8021	10,000	2,520
Total U.S. Department of Health and Human Services			<u>10,000</u>	<u>2,520</u>
U.S. Department of Commerce				
Narrow-Band Planning	11.555	HM8055	14,950	11,102
CONOPS MDT Grant	11.555	HMG8029	203,281	6,433
Total U.S. Department of Commerce			<u>218,231</u>	<u>17,535</u>
U.S. Department of Energy				
Energy Efficient Conservation Block Grant	81.128		174,900	113,007
Total U.S. Department of Energy			<u>174,900</u>	<u>113,007</u>
U.S. Department of Justice Passed Through Maine				
Department of Human Services				
Crime Victims Assistance	16.575	CFS-11-2304	46,543	21,196
Crime Victims Assistance	16.575	CFS-12-2304	46,543	25,347
			<u>93,086</u>	<u>46,543</u>
JAG Grant	16.738	KNX-01-10	15,275	4,700
JAG Grant	16.738		4,067	4,067
			<u>19,342</u>	<u>8,767</u>
Total U.S. Department of Justice			<u>112,428</u>	<u>55,310</u>
Total			<u><u>7,579,515</u></u>	<u><u>1,082,741</u></u>

COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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.