

COUNTY OF KNOX, MAINE

*FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES*

*FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2012*

**COUNTY OF KNOX
 FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
 DECEMBER 31, 2012**

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**COUNTY OF KNOX
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
DECEMBER 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

July 5, 2013
County Commissioners
County of Knox
Rockland, ME 04841

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, 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.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Knox, Maine's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County of Knox, Maine's internal control over financial reporting and compliance.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

County of Knox
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2012

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, 2012. 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 position – The assets of the County exceeded its liabilities at fiscal year ending December 31, 2012 by \$27,626,168 (presented as “net position”). Of this amount, \$3,652,955 was reported as “unrestricted net position”. Unrestricted net position represents the amount available to be used to meet the County's ongoing obligations to citizens and creditors.

Changes in Net position – The County's total net position increased by \$140,932 (a .5 % increase) for the fiscal year ended December 31, 2012.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the fiscal year ended December 31, 2012; the County's governmental funds reported a combined ending fund balance of \$3,946,262 with \$1,227,305 being general unassigned fund balance. This unassigned fund balance represents approximately 30% of the total general fund expenditures for the year.

Long-term Debt:

The County's total long-term debt obligations increased by \$2,500,000 (100%) during the current fiscal year. A new bond was issued for the public safety building. Additional information on the County's debt can be found in Note 3F of the notes to the financial statements on page 25-26 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 15-29 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 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

87% of the County’s net position reflects its investment in capital assets such as land, buildings, and equipment less any related debt used to acquire those assets that are still outstanding. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

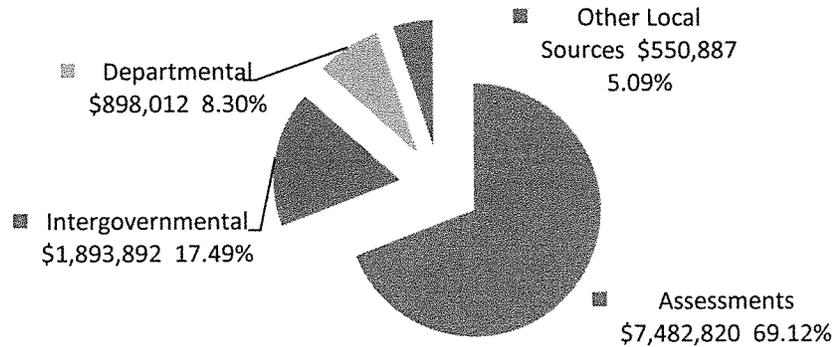
| | Total 2012 | Total 2011 |
|---|-------------------|-------------------|
| Current Assets | 4,331,202 | 3,439,049 |
| Capital Assets | 26,516,662 | 24,687,862 |
| Total Assets | 30,847,864 | 28,126,911 |
| | | |
| Current Liabilities | 844,473 | 548,833 |
| Other Liabilities | 2,377,223 | 92,839 |
| Total Liabilities | 3,221,696 | 641,672 |
| | | |
| Net Position: | | |
| Net Investment in Capital Assets | 23,923,823 | 24,550,959 |
| Restricted | 49,390 | 90,676 |
| Unrestricted | 3,652,955 | 2,843,604 |
| Total Net Position | 27,626,168 | 27,485,239 |
| | | |
| Total Liabilities and Net Position | 30,847,864 | 28,126,911 |

Changes in Net position

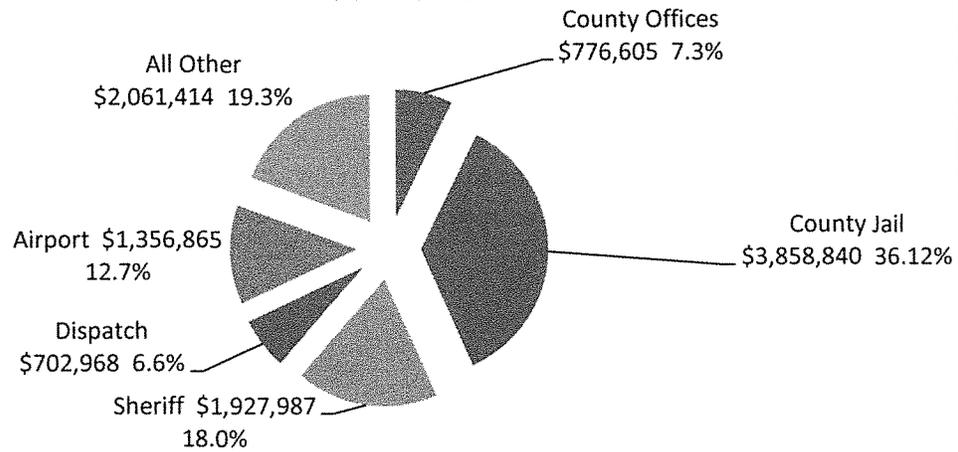
Approximately 70 percent of the County's total revenue came from assessments, approximately 18 percent came from State subsidies and grants, and approximately 12 percent came from services, investment earnings and other sources. Depreciation expense on the County's governmental assets represents \$842,342 of the total expenditures for the fiscal year.

| | Total 2012 | Total 2011 |
|-------------------------------------|-------------------|-------------------|
| Revenues: | | |
| District Assessments | 7,482,820 | 7,534,900 |
| Intergovernmental Revenues | 1,893,892 | 1,446,076 |
| Departmental Revenues | 898,012 | 817,702 |
| Other Local Sources | 483,774 | 490,468 |
| Bond Premium | 62,847 | |
| Gain on Sale of Assets | 4,266 | |
| Total | 10,825,611 | 10,289,146 |
| Expenses: | | |
| Emergency Management Agency | 343,816 | 369,670 |
| District Attorney | 444,443 | 400,560 |
| Administration & Information Tech. | 520,822 | 595,052 |
| County Finance | 255,783 | 232,273 |
| Building Maintenance | 312,311 | 279,598 |
| Building Maintenance - 301 Park St. | 6,200 | |
| Debt Service | 2,880 | 20,975 |
| County Jail | 3,858,840 | 3,820,738 |
| Registry of Deeds | 267,402 | 262,848 |
| Probate Court | 191,301 | 203,826 |
| Sheriff's Patrol | 1,927,987 | 1,777,938 |
| Dispatch | 702,968 | 1,065,863 |
| Capital Outlay | 304,432 | - |
| Airport | 1,356,865 | 1,080,425 |
| All Other | 188,629 | 216,515 |
| | 10,684,679 | 10,326,281 |
| Changes in Net Position | 140,932 | (37,135) |

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 \$3,946,262 an increase of \$805,234 in comparison with the prior year. 41 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:

- \$23,357 positive variance in emergency management agency revenues. The higher revenues were due to misclassification of year for payments. EMA classifies quarters differently than Knox due to them being on a fiscal year. On target for 2013 payments correctly.
- \$53,559 positive variance in registry of deeds. The higher revenue is due to more deeds recorded.
- \$28,217 positive variance in sheriff revenue. The higher revenue is due to civil process which is offset by increase in civil process expense. Also polygraph was new in 2012 and not budgeted.
- \$41,838 negative variance in EMA, DA, Probate, and Sheriff Personal services. The higher expense is due to salary increase after 2nd budget approval that could not be covered within existing budget.
- \$22,906 positive variance in county commissioner's contractual services. The lower expense is due to reduced human resources and IT consulting, and delay in IT projects.
- \$6,571 negative variance in KWRED. The county commissioners agreed to pay for expense incurred prior to reduction in 2012 budget as requested by KWRED.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities amounts to \$33,792,806 net of accumulated depreciation of \$7,276,144 leaving a net book value of \$26,516,662.

Additional information on the County's capital assets can be found in Note 3D of the notes to the financial statements on page 24 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 POSITION
DECEMBER 31, 2012

Exhibit A

| <i>Assets</i> | <u><i>Governmental Activities</i></u> |
|---|---|
| Cash and Equivalents | 1,975,951 |
| Investments | 1,428,395 |
| Accounts Receivable | 383,033 |
| Prepaid Expenditures | |
| Due from Other Governments | 543,823 |
| Capital Assets: | |
| Land | 2,621,554 |
| Construction Work in Progress | 1,333,094 |
| Other Capital Assets, Net of Depreciation | <u>22,562,014</u> |
| Total Assets | <u><u>30,847,864</u></u> |
| <i>Liabilities and Net Position</i> | |
| Liabilities | |
| Accounts Payable | 7,924 |
| Retainage Payable | 58,924 |
| Accrued Salaries | 137,402 |
| Compensated Absences | 424,607 |
| Long-term Liabilities: | |
| Due Within One Year | 215,616 |
| Due in More Than One Year | <u>2,377,223</u> |
| Total Liabilities | <u>3,221,696</u> |
| Net Position | |
| Net Investment in Capital Assets | 23,923,823 |
| Restricted Net Position | 49,390 |
| Unrestricted | <u>3,652,955</u> |
| Total Net Position | <u>27,626,168</u> |
| Total Liabilities and Net Position | <u><u>30,847,864</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, 2012

Exhibit B

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense)</u> |
|--|-------------------|--|-------------------------|--|
| | | <u>Fees, Fines, and Charges for Services</u> | <u>Operating Grants</u> | <u>Revenue and Changes in Net Position</u> |
| <u>Primary Government</u> | | | | <u>Total Governmental Activities</u> |
| <u>Governmental Activities</u> | | | | |
| Emergency Management Agency | 343,816 | 4,058 | 81,145 | (258,613) |
| District Attorney | 444,443 | 23,253 | 46,542 | (374,648) |
| County Commissioners | 520,822 | | | (520,822) |
| County Treasurer | 255,783 | 2,254 | | (253,529) |
| Building Maintenance | 312,311 | 102,067 | | (210,244) |
| Building Maintenance - 301 Park St. | 6,200 | | | (6,200) |
| Debt Service | 2,880 | | | (2,880) |
| County Jail | 3,858,840 | 46,154 | 536,929 | (3,275,757) |
| Registry of Deeds | 267,402 | | | (267,402) |
| Probate Court | 191,301 | 92,100 | | (99,201) |
| Sheriff's Patrol | 1,927,987 | 261,114 | 32,035 | (1,634,838) |
| Dispatch | 702,968 | | | (702,968) |
| Capital Outlay | 304,432 | | | (304,432) |
| Airport | 1,356,865 | 334,358 | 78,350 | (944,157) |
| All Other | 188,629 | | | (188,629) |
| <u>Total Governmental Activities</u> | <u>10,684,679</u> | <u>865,358</u> | <u>775,001</u> | <u>(9,044,320)</u> |
| <u>Total Primary Government</u> | <u>10,684,679</u> | <u>865,358</u> | <u>775,001</u> | <u>(9,044,320)</u> |
| <u>General Revenues:</u> | | | | |
| Assessments | | | | 7,482,820 |
| Registry of Deeds Fees | | | | 453,569 |
| Airport Federal and State Grants for Capital Assets & Infrastructure | | | | 735,582 |
| Emergency Management Federal Grant for Capital Assets | | | | 381,280 |
| Other Local Sources | | | | 64,888 |
| Bond Premium | | | | 62,847 |
| Gain on Sale of Assets | | | | 4,266 |
| <u>Total Revenues, Special Items and Transfers</u> | | | | <u>9,185,252</u> |
| <u>Changes in Net Position</u> | | | | 140,932 |
| <u>Net Position - Beginning</u> | | | | <u>27,485,236</u> |
| <u>Net Position - Ending</u> | | | | <u>27,626,168</u> |

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Exhibit C
Page 1 of 2

| <i>Assets</i> | <i>General Fund</i> | <i>Local Emergency Planning Committee</i> | <i>Airport Aviation Easements</i> | <i>301Park Street Building</i> | <i>Capital Improvements</i> | <i>Other Governmental Funds</i> | <i>Total</i> |
|--|---------------------|---|---|--|---------------------------------|---|------------------|
| Cash and Equivalents | 1,265,091 | 36,042 | | 674,818 | | | 1,975,951 |
| Investments | 719,254 | | | | 709,141 | | 1,428,395 |
| Accounts Receivable | 379,686 | | | | 3,347 | | 383,033 |
| Due from Other Funds | 564,437 | | | | 14,517 | 1,612 | 580,566 |
| Due from Other Governments | | 219,479 | 184,311 | | | 140,033 | 543,823 |
| Total Assets | 2,928,468 | 255,521 | 184,311 | 674,818 | 727,005 | 141,645 | 4,911,768 |
| Liabilities | | | | | | | |
| Accounts Payable | 7,924 | | | | | | 7,924 |
| Retainage Payable | | | | 58,924 | | | 58,924 |
| Accrued Salaries | 137,402 | | | | | | 137,402 |
| Due to Other Funds | 42,408 | 219,753 | 184,311 | | 5,910 | 128,184 | 580,566 |
| Total Liabilities | 187,734 | 219,753 | 184,311 | 58,924 | 5,910 | 128,184 | 784,816 |
| Deferred Inflows of Resources: | | | | | | | |
| Deferred Revenues | 180,690 | | | | | | 180,690 |
| Total Deferred Inflows of Resources | 180,690 | - | - | - | - | - | 180,690 |
| Fund Balances | | | | | | | |
| Restricted | | 35,768 | | | | 13,622 | 49,390 |
| Committed | 739,028 | | | 615,894 | 721,095 | - | 2,076,017 |
| Assigned | 219,310 | | | | | | 219,310 |
| Unassigned | 1,601,706 | | | | | (161) | 1,601,545 |
| Total Fund Balances | 2,560,044 | 35,768 | - | 615,894 | 721,095 | 13,461 | 3,946,262 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 2,928,468 | 255,521 | 184,311 | 674,818 | 727,005 | 141,645 | 4,911,768 |

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

COUNTY OF KNOX
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Exhibit C
Page 2 of 2

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

| | |
|--|--------------------------|
| Total Fund Balance | 3,946,262 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$7,276,144 | <u>26,516,662</u> |
| | <u>26,516,662</u> |
| Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds: | |
| Capital Leases | (92,839) |
| Bonds Payable | (2,500,000) |
| Deferred Revenues - Other | 180,690 |
| | <u>(2,412,149)</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>(424,607)</u> |
| | <u>(424,607)</u> |
| Net Position of Governmental Activities | <u><u>27,626,168</u></u> |

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

**COUNTY OF KNOX
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

**Exhibit D
 Page 1 of 2**

| | <i>General Fund</i> | <i>Local Emergency Planning Committee</i> | <i>Airport Aviation Easements</i> | <i>301 Park Street Building</i> | <i>Capital Improvements</i> | <i>Other Governmental Funds</i> | <i>Total Governmental Funds</i> |
|---|-------------------------|---|---|---|---------------------------------|---|---|
| Revenues | | | | | | | |
| Assessments | 7,482,820 | | | | | | 7,482,820 |
| Intergovernmental Revenues | 698,453 | 170,340 | 184,311 | 210,940 | | 629,848 | 1,893,892 |
| Departmental Revenues | 898,012 | | | | | | 898,012 |
| Other Local Sources | 419,341 | 4,058 | | 10,245 | 49,743 | 4,653 | 488,040 |
| Total Revenues | 9,498,626 | 174,398 | 184,311 | 221,185 | 49,743 | 634,501 | 10,762,764 |
| Expenditures | | | | | | | |
| Emergency Management Agency | 132,542 | 156,763 | | | | | 289,305 |
| District Attorney | 347,962 | | | | | 87,213 | 435,175 |
| County Commissioners | 553,655 | | | | | | 553,655 |
| County Treasurer | 249,297 | | | | | | 249,297 |
| Building Maintenance | 308,911 | | | | 3,400 | | 312,311 |
| Building Maintenance - 301 Park St. | 6,200 | | | | | | 6,200 |
| Debt Service | 2,880 | | | | | | 2,880 |
| County Jail | 3,740,199 | | | | | | 3,740,199 |
| Registry of Deeds | 264,457 | | | | | | 264,457 |
| Probate Court | 222,109 | | | | | | 222,109 |
| Sheriff's Patrol | 1,864,341 | | | | 7,186 | 34,074 | 1,905,601 |
| Dispatch | 906,948 | | | | | 65,188 | 972,136 |
| Airport | 454,461 | | 194,012 | | 927 | 560,885 | 1,210,285 |
| Capital Outlay | | | | 2,168,138 | | | 2,168,138 |
| All Other | 184,627 | | | | | 4,002 | 188,629 |
| Total Expenditures | 9,238,589 | 156,763 | 194,012 | 2,168,138 | 11,513 | 751,362 | 12,520,377 |
| Excess of Revenues Over (Under) Expenditures | 260,037 | 17,635 | (9,701) | (1,946,953) | 38,230 | (116,861) | (1,757,613) |
| Other Financing Sources (Uses) | | | | | | | |
| Bond Proceeds | | | | 2,562,847 | | | 2,562,847 |
| Transfers from Other Funds | - | | 9,701 | | 26,574 | 64,476 | 100,751 |
| Transfers to Other Funds | (57,649) | | | | (39,200) | (3,902) | (100,751) |
| Total Other Financing Sources (Uses) | (57,649) | | 9,701 | 2,562,847 | (12,626) | 60,574 | 2,562,847 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | 202,388 | 17,635 | - | 615,894 | 25,604 | (56,287) | 805,234 |
| Fund Balance - January 1 | 2,357,656 | 18,133 | | | 695,491 | 69,748 | 3,141,028 |
| Fund Balance - December 31 | 2,560,044 | 35,768 | - | 615,894 | 721,095 | 13,461 | 3,946,262 |

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, 2012**

| | |
|---|-----------------------|
| Net change in fund balances - total governmental funds | 805,234 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets: | |
| Capital asset purchases capitalized | 2,671,441 |
| Depreciation expense | (842,342) |
| Disposed capital assets | (299) |
| Bond proceeds provided current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position: | |
| New Bond | (2,500,000) |
| Capital lease principal payments | 44,067 |
| 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 | (37,169) |
| Change in net position of governmental activities | <u><u>140,932</u></u> |

COUNTY OF KNOX
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2012

Exhibit E

| | <i>Agency Fund</i> | | <i>Totals</i> |
|---------------------------------|--------------------|-----------------------|---------------|
| | <i>Inmate Fund</i> | <i>DA Restitution</i> | |
| <i>Assets</i> | | | |
| Cash and Equivalents | 12,664 | 60,052 | 72,716 |
| <i>Total Assets</i> | <u>12,664</u> | <u>60,052</u> | <u>72,716</u> |
| <i>Liabilities</i> | | | |
| Due to Victims | | | |
| Due to Inmates | 12,664 | 60,052 | 72,716 |
| <i>Total Liabilities</i> | <u>12,664</u> | <u>60,052</u> | <u>72,716</u> |

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

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 position 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*.

For the year ended 12/31/12, the County has implemented GASB #63 and GASB #65, which replaces net assets with net position and created deferrals.

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

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

on long-term debt, as well as expenditure related to compensated absences and claims and judgments are recorded only when payment is due.

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.

Local emergency planning committee accounts for all expenditures related to LEPC grants.

The airport aviation easements account for all expenditures relating to the aviation easements.

301 Park Street Building accounts for all expenditures relating to the construction of the public safety building.

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

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, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net position 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, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 upon complying with county policies.

Employees earn sick leave proportionate to regularly scheduled hours for a maximum of 8 hours, 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 position. 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, 2012

D. Assets, Liabilities and Net position 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 position

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, 2012

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

7. Fund Balances/Net position (continued)

Fund Balances

The County has identified December 31, 2012 fund balances on the balance sheet as follows:

7

| | <i>General Fund</i> | <i>LEPC</i> | <i>301 Park Street Bld.</i> | <i>Cap. Imp.</i> | <i>Other Govt. Funds</i> | <i>Total</i> |
|---------------------------|-------------------------|---------------|-------------------------------------|----------------------|----------------------------------|------------------|
| <i>Restricted</i> | | | | | | |
| Wellness Grant | | | | | 269 | 269 |
| Air. Ob. Analysis | | | | | 11,991 | 11,991 |
| LEPC | | 35,768 | | | | 35,768 |
| Air. Design & Perm. | | | | | 19 | 19 |
| Underage Dr. Gr. | | | | | 1,343 | 1,343 |
| <i>Committed</i> | | | | | | |
| Dare Program | 7,410 | | | | | 7,410 |
| Matching Grants | 20,535 | | | | | 20,535 |
| General Reserves | 691,309 | | | | | 691,309 |
| Airport Security | 19,774 | | | | | 19,774 |
| 301 Park St. Bld. | | | 615,894 | | | 615,894 |
| Capital Imp. | | | | 721,095 | | 721,095 |
| <i>Assigned</i> | | | | | | |
| Inmate Fund | 219,310 | | | | | 219,310 |
| <i>Unassigned</i> | | | | | | |
| General Fund | 1,227,305 | | | | | 1,227,305 |
| Jail Fund | 148,766 | | | | | 148,766 |
| Airport Fund | 53,597 | | | | | 53,597 |
| Dispatch Fund | 172,038 | | | | | 172,038 |
| Air. Snow Rem. | | | | | (18) | (18) |
| Air. Misc. Imp. | | | | | (25) | (25) |
| Air. Term. Study | | | | | (104) | (104) |
| Air. Snow Truck | | | | | (14) | (14) |
| Total Fund Balance | 2,560,044 | 35,768 | 615,894 | 721,095 | 13,461 | 3,946,262 |

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

7. Fund Balances/Net position (continued)

Net position

Net position 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 position 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 position consists of restrictions placed on net position 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 position 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, 2012**

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 \$2,048,667 and the bank balance was \$2,998,641. Of the bank balance, \$2,126,007 was covered by federal depository insurance. The remaining \$872,635 was uninsured.

COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

B. Investments

At December 31, 2012, the County had the following investments, maturities, and credit ratings:

| <i>Type</i> | <i>Fair Value</i> | <i>Maturities in Years</i> | | | | <i>Credit Rating</i> | |
|--------------------------|-------------------|----------------------------|------------|-------------|----------------|----------------------|----------------|
| | | <i>< 1</i> | <i>1-5</i> | <i>6-10</i> | <i>> 10</i> | <i>S&P</i> | <i>Moody's</i> |
| <i>All Funds</i> | | | | | | | |
| U.S. Treasury Securities | 1,428,395 | 322,013 | 736,959 | 369,423 | | AAA | AAA |
| | 1,428,395 | 322,013 | 736,959 | 369,423 | - | | |

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, 2012, the tax assessment was calculated as follows:

| | |
|---------------------------|------------------|
| Assessed Valuation | |
| Real and personal estates | \$ 7,509,650,000 |
| Unorganized territories | 19,050,000 |
| | <hr/> |
| Total assessed valuation | 7,528,700,000 |
| | <hr/> |
| Tax rate | 0.0008627 |
| | <hr/> |
| Current tax commitment | \$ 6,494,710 |
| | <hr/> |
| Appropriations | 9,152,444 |
| Overlay | 127,349 |
| | <hr/> |
| | 9,279,793 |
| Less: | |
| Estimated revenues | (2,785,083) |
| | <hr/> |
| Current tax commitment | \$ 6,494,710 |
| | <hr/> |

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending Balance</i> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental Activities; | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | 2,126,236 | 495,317 | | 2,621,553 |
| CWIP | | 1,333,094 | | 1,333,094 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 9,884,146 | 76,083 | | 9,960,229 |
| Equipment | 3,960,979 | 719,383 | (42,987) | 4,637,375 |
| Infrastructure | 15,192,991 | 47,564 | | 15,240,555 |
| <i>Total capital assets being depreciated</i> | 29,038,116 | 843,030 | (42,987) | 29,838,159 |
| <i>Less accumulated depreciation for</i> | | | | |
| Buildings | 2,599,839 | 202,891 | | 2,802,730 |
| Equipment | 1,552,078 | 318,291 | (42,688) | 1,827,681 |
| Infrastructure | 2,324,573 | 321,160 | | 2,645,733 |
| <i>Total accumulated depreciation</i> | 6,476,490 | 842,342 | (42,688) | 7,276,144 |
| <i>Net capital assets being depreciated</i> | 22,561,626 | 688 | (299) | 22,562,015 |
| Governmental Activities Capital Assets, net | 24,687,862 | 1,829,099 | (299) | 26,516,662 |

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

| <u>Governmental Activities</u> | |
|--|----------------|
| Emergency Management | 89,375 |
| District Attorney | 518 |
| County Commissioners | 23,754 |
| County Treasurer | 106 |
| County Jail | 137,272 |
| Probate Court | 128 |
| Sheriff's Patrol | 102,309 |
| Dispatch | 25,355 |
| Airport | 463,525 |
| Total Depreciation Expense - Governmental Activities | <u>842,342</u> |

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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:

| Year Ended December 31 | Minimum Lease Payment |
|--|--------------------------------------|
| 2014 | 48,886 |
| 2015 | 48,886 |
| Total Minimum Lease Payments | <u>97,772</u> |
| Less: Amount Representing Interest | <u>4,933</u> |
| Present Value of Future Minimum Lease Payments | <u><u>92,839</u></u> |

F. Long-Term Debt

1. General Obligation Bonds and Notes.

The government issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds and notes currently outstanding are as follows:

| General Obligation | Maturity Date | Interest Rate | Amount |
|----------------------------|--------------------------|--------------------------|-------------------------|
| 2013 301 Park St. Building | 11/15/2027 | 2.25-4% | <u><u>2,500,000</u></u> |

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$446,614 are as follows:

| Year Ended December 31, | General Obligation Debt |
|------------------------------------|--|
| 2013 | 237,354 |
| 2014 | 220,931 |
| 2015 | 217,531 |
| 2016 | 214,131 |
| 2017 | 210,731 |
| 2018-2022 | 967,105 |
| 2023-2027 | 878,831 |
| Total | <u><u>2,946,614</u></u> |

**COUNTY OF KNOX
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

F. Long-Term Debt (continued)

2. Changes in Long-Term Liabilities

The following summary of long-term debt transactions of the County of Knox for the fiscal year ended December 31, 2012:

| | |
|---|-------------------------|
| <i>Long-term Debt payable January 1, 2012</i> | |
| Debt Issued | 2,500,000 |
| Debt Retired | |
| <i>Long-term Debt payable December 31, 2012</i> | <u><u>2,500,000</u></u> |

G. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2012, were as follows:

| | <i>Interfund Receivable</i> | <i>Interfund Payable</i> |
|------------------------------------|---------------------------------|------------------------------|
| General Fund | 564,437 | 42,408 |
| Special Revenue Funds | | |
| MMA Safety Grant | | 860 |
| JAG Grant | | 25,013 |
| Wellness Grant | 269 | |
| Local Emergency Planning Committee | | 219,753 |
| Underage Drinking Grant | 1,343 | |
| Capital Project Funds | | |
| Airport Miscellaneous Imp. | | 4,256 |
| Airport Obstruction Analysis | | 14,210 |
| Airport Snow Removal Equipment | | 18 |
| Airport Design & Permitting | | 69,440 |
| Airport Terminal Study Bus. Plan | | 104 |
| Airport Master Plan Update | | 11,034 |
| Airport Snow Removal Truck | | 3,249 |
| Airport Aviation Easements | | 184,311 |
| Capital Improvements | <u>14,517</u> | <u>5,910</u> |
| Totals | <u><u>580,566</u></u> | <u><u>580,566</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, 2012**

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

G. Interfund Receivables and Payables (continued)

Transfers To/From Other Funds at December 31, 2012, were as follows:

| | <i>Transfers From</i> | <i>Transfers To</i> |
|-----------------------------------|-----------------------|---------------------|
| General Fund | | 57,649 |
| Special Revenue Funds | | |
| Victim/Witness Advocate Grant | 37,649 | |
| Capital Projects | | |
| Airport RSA/Wildlife Study | 310 | |
| Airport Crack Sealing & Repair | 2,346 | |
| Airport Obstruction Analysis | 551 | |
| Airport Snow Removal Equipment | 5,375 | 1,295 |
| Airport Snow Removal Equipment | 1,295 | 60 |
| Airport Misc. Improvements | 4,231 | 2,512 |
| Airport Terminal Final Design | | 25 |
| Airport Pavement Maintenance | 140 | |
| Airport Terminal Study Bus. Plan | 3 | |
| Airport #30 Terminal Construction | 4 | |
| Airport #33 Terminal Construction | 22 | 10 |
| Airport Design & Permitting | 7,175 | |
| Airport Master Plan Update | 2,140 | |
| Airport Snow Removal Truck | 3,235 | |
| Airport Aviation Easements | 9,701 | |
| Capital Improvements | 26,574 | 39,200 |
| Totals | 100,751 | 100,751 |

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, 2012**

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 and an unfunded liability of \$69,982 for 2010, an unfunded liability of \$45,448 for 2011, and an unfunded liability of \$66,422 for 2012.

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.

Participants vesting requirements are fulfilled at 5 years of service. The County has contributed \$188,935 and the participants have contributed \$80,972 for the year-ended December 31, 2012.

A participant may direct the investment without restriction among various options available under the trust. Loans are permitted through 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;

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 and \$2,500 for health care.

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, 2012**

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
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

Exhibit F

| | <i>Original Budget</i> | <i>Final Budget</i> | <i>Actual</i> | <i>Variance Favorable (Unfavorable)</i> |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Assessments | 3,197,406 | 3,197,406 | 3,197,406 | - |
| Intergovernmental Revenues | 57,788 | 57,788 | 83,174 | 25,386 |
| Departmental Revenues | 796,233 | 796,233 | 898,012 | 101,779 |
| Other Local Sources | 15,800 | 15,800 | 19,308 | 3,508 |
| Total Revenues | 4,067,227 | 4,067,227 | 4,197,900 | 130,673 |
| Expenditures | | | | |
| Emergency Management Agency | 115,316 | 115,316 | 132,542 | (17,226) |
| District Attorney | 346,166 | 346,166 | 347,962 | (1,796) |
| County Commissioners | 535,660 | 535,660 | 488,935 | 46,725 |
| County Treasurer | 254,334 | 254,334 | 249,297 | 5,037 |
| Building Maintenance | 320,850 | 320,850 | 308,911 | 11,939 |
| Building Maintenance - 301 Park Street | 22,430 | 22,430 | 6,200 | 16,230 |
| Debt Service | 15,000 | 15,000 | 2,880 | 12,120 |
| Registry of Deeds | 257,023 | 257,023 | 249,490 | 7,533 |
| Probate Court | 215,009 | 215,009 | 222,109 | (7,100) |
| Sheriff's Patrol | 1,830,145 | 1,830,145 | 1,846,302 | (16,157) |
| All Other | 299,749 | 299,749 | 171,774 | 127,975 |
| Total Expenditures | 4,211,682 | 4,211,682 | 4,026,402 | 185,280 |
| Excess Revenues Over Expenditures | (144,455) | (144,455) | 171,498 | 315,953 |
| Other Financing Sources (Uses) | | | | |
| Transfers from Other Funds | - | - | - | - |
| Transfers to Other Funds | (30,545) | (30,545) | (88,053) | (57,508) |
| Total Other Financing Sources (Uses) | (30,545) | (30,545) | (88,053) | (57,508) |
| Excess of Revenues and Other Sources Over (Under) Expenditures | (175,000) | (175,000) | 83,445 | 258,445 |
| Unassigned Fund Balance - January 1 | | | 1,143,860 | |
| Unassigned Fund Balance - December 31 | | | 1,227,305 | |

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2012

Exhibit A-1

| | <i>Budget</i> | <i>Actual</i> | <i>Over (Under) Budget</i> |
|---|-------------------------|-------------------------|------------------------------------|
| Assessments | 3,197,406 | 3,197,406 | - |
| Intergovernmental Revenues | | | |
| Federal | | | |
| Emergency Management Agency | 57,788 | 81,145 | 23,357 |
| Wildlife Refuge Fees | | 1,802 | 1,802 |
| State | | | |
| Fuel Reimbursement | | 227 | 227 |
| | <u>57,788</u> | <u>83,174</u> | <u>25,386</u> |
| Departmental Revenue | | | |
| Treasurer - Investment Income | | 2,254 | 2,254 |
| District Attorney | 15,750 | 23,253 | 7,503 |
| Building Maintenance | 95,651 | 102,067 | 6,416 |
| Registry of Deeds | 371,000 | 424,559 | 53,559 |
| Probate Court | 85,500 | 89,330 | 3,830 |
| Sheriff | 228,332 | 256,549 | 28,217 |
| | <u>796,233</u> | <u>898,012</u> | <u>101,779</u> |
| Other Local Sources | | | |
| Miscellaneous | 15,800 | 19,308 | 3,508 |
| | <u>15,800</u> | <u>19,308</u> | <u>3,508</u> |
| Operating Transfers In | | | |
| Transfers from Grants | | | - |
| Transfers from Reserves | | | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Revenues and Transfers | 4,067,227 | <u><u>4,197,900</u></u> | <u><u>130,673</u></u> |
| Fund Balance Used to Calculate Assessments | <u>175,000</u> | | |
| Total | <u><u>4,242,227</u></u> | | |

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

Exhibit A-2
Page 1 of 2

| | <i>Budget</i> | <i>Actual</i> | <i>(Over) Under Budget</i> |
|-----------------------------------|---------------|---------------|------------------------------------|
| Emergency Management Agency | | | |
| Personal Services | 101,902 | 119,136 | (17,234) |
| Contractual Services | 9,158 | 9,153 | 5 |
| Commodities | 4,256 | 4,253 | 3 |
| | 115,316 | 132,542 | (17,226) |
| District Attorney | | | |
| Personal Services | 291,929 | 293,755 | (1,826) |
| Contractual Services | 41,574 | 41,546 | 28 |
| Commodities | 9,635 | 9,633 | 2 |
| Capital Outlay | 3,028 | 3,028 | - |
| | 346,166 | 347,962 | (1,796) |
| County Commissioners | | | |
| Personal Services | 258,152 | 249,530 | 8,622 |
| Contractual Services | 200,847 | 177,941 | 22,906 |
| Commodities | 5,926 | 3,134 | 2,792 |
| Capital Outlay | 70,735 | 58,330 | 12,405 |
| | 535,660 | 488,935 | 46,725 |
| County Treasurer | | | |
| Personal Services | 212,761 | 211,251 | 1,510 |
| Contractual Services | 37,724 | 34,595 | 3,129 |
| Commodities | 3,849 | 3,451 | 398 |
| | 254,334 | 249,297 | 5,037 |
| Building Maintenance | | | |
| Contractual Services | 192,706 | 185,949 | 6,757 |
| Commodities | 89,797 | 84,615 | 5,182 |
| Capital Outlay | 38,347 | 38,347 | - |
| | 320,850 | 308,911 | 11,939 |
| Building Maintenance 301 Park St. | | | |
| Contractual Services | 17,169 | 3,346 | 13,823 |
| Commodities | 5,261 | 2,854 | 2,407 |
| | 22,430 | 6,200 | 16,230 |
| Debt Service | | | |
| Interest - Tax Anticipation Note | 15,000 | 2,880 | 12,120 |
| | 15,000 | 2,880 | 12,120 |

**COUNTY OF KNOX
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2012**

*Exhibit A-2
Page 2 of 2*

| | <i>Budget</i> | <i>Actual</i> | <i>(Over) Under Budget</i> |
|--------------------------------|------------------------------|------------------------------|------------------------------------|
| Registry of Deeds | | | |
| Personal Services | 174,748 | 167,389 | 7,359 |
| Contractual Services | 79,644 | 79,567 | 77 |
| Commodities | 2,631 | 2,534 | 97 |
| | <hr/> 257,023 | <hr/> 249,490 | <hr/> 7,533 |
| Probate Court | | | |
| Personal Services | 193,335 | 199,889 | (6,554) |
| Contractual Services | 17,429 | 17,978 | (549) |
| Commodities | 4,245 | 4,242 | 3 |
| | <hr/> 215,009 | <hr/> 222,109 | <hr/> (7,100) |
| Sheriff's Patrol | | | |
| Personal Services | 1,549,214 | 1,565,438 | (16,224) |
| Contractual Services | 149,116 | 149,109 | 7 |
| Commodities | 51,101 | 51,041 | 60 |
| Capital Outlay | 80,714 | 80,714 | - |
| | <hr/> 1,830,145 | <hr/> 1,846,302 | <hr/> (16,157) |
| Other | | | |
| Knox-Lincoln Extension Service | 54,570 | 54,570 | - |
| Knox-Lincoln Soil & Water | 19,421 | 19,421 | - |
| KWRED | | 6,571 | (6,571) |
| Time and Tide RC&D | 3,625 | 3,625 | - |
| Mid Coast Regional Planning | 2,500 | 2,500 | - |
| Insurance | 92,284 | 85,087 | 7,197 |
| Overlay | 127,349 | | 127,349 |
| | <hr/> 299,749 | <hr/> 171,774 | <hr/> 127,975 |
| Transfers Out | | | |
| DA Grant | 30,545 | 37,649 | (7,104) |
| Reserves | | 50,404 | (50,404) |
| | <hr/> 30,545 | <hr/> 88,053 | <hr/> (57,508) |
| Total Appropriations | <hr/> <hr/> 4,242,227 | <hr/> <hr/> 4,114,455 | <hr/> <hr/> 127,772 |

COUNTY OF KNOX
GENERAL FUND
STATEMENT OF CHANGES IN UNASSIGNED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

Exhibit A-3

| | | |
|--|------------------|----------------------|
| Unassigned Fund Balance January 1, 2012 | 1,143,860 | |
| Unassigned Fund Balance December 31, 2012 | <u>1,227,305</u> | |
| Increase (Decrease) | | <u><u>83,445</u></u> |

Analysis of Change

| | | |
|---|----------------|----------------------|
| Additions | | |
| Budget Summary | | |
| Revenue Surplus (Exhibit A-1) | 130,673 | |
| Unexpended (Overdraft) Balance of Appropriations (Exhibit A-2) | <u>127,772</u> | |
| Budget Surplus (Deficit) | | <u>258,445</u> |
| Deductions | | |
| Fund Balance Used to Calculate Assessments | | <u>(175,000)</u> |
| Increase (Decrease) | | <u><u>83,445</u></u> |

COUNTY OF KNOX
 ALL GENERAL RESERVES
 BALANCE SHEET
 DECEMBER 31, 2012

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 | | | | 37,540 | | 219,310 | | 256,850 |
| Investments | 7,410 | 20,535 | 691,309 | | | | | 719,254 |
| Accounts Receivable | | | 5,480 | 5,833 | 36,947 | | 1,902 | 50,162 |
| Due from Other Funds | | | | 343,047 | 43,761 | | 185,966 | 572,774 |
| Total Assets | 7,410 | 20,535 | 696,789 | 386,420 | 80,708 | 219,310 | 187,868 | 1,599,040 |
| <i>Liabilities and Fund Balances</i> | | | | | | | | |
| Liabilities | | | | | | | | |
| Accrued Salaries | | | | 56,964 | 7,337 | | 15,830 | 80,131 |
| Due to Other Funds | | | 5,480 | | | | | 5,480 |
| Deferred Revenues | | | | 180,690 | | | | 180,690 |
| Total Liabilities | - | - | 5,480 | 237,654 | 7,337 | - | 15,830 | 266,301 |
| Fund Balances | | | | | | | | |
| Committed | 7,410 | 20,535 | 691,309 | | 19,774 | | | 739,028 |
| Assigned | | | | | | 219,310 | | 219,310 |
| Unassigned | | | | 148,766 | 53,597 | | 172,038 | 374,401 |
| Total Fund Balances | 7,410 | 20,535 | 691,309 | 148,766 | 73,371 | 219,310 | 172,038 | 1,332,739 |
| Total Liabilities and Fund Balances | 7,410 | 20,535 | 696,789 | 386,420 | 80,708 | 219,310 | 187,868 | 1,599,040 |

**COUNTY OF KNOX
ALL GENERAL RESERVES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 | 108,604 | | 988,110 | 4,285,414 |
| Intergovernmental Revenues | | | | | | | | |
| Federal | | | | 13,000 | 78,350 | | | 91,350 |
| State | | | | 523,929 | | | | 523,929 |
| Interest | 231 | 561 | 18,600 | 15 | | | | 19,407 |
| Fair Value Increase (Decrease) | (158) | (337) | (9,485) | | | | | (9,980) |
| Other Local Sources | 600 | | 44,579 | 8,850 | 298,298 | 37,304 | 975 | 390,606 |
| Total Revenues | 673 | 224 | 53,694 | 3,734,494 | 485,252 | 37,304 | 989,085 | 5,300,726 |
| Expenditures | | | | | | | | |
| Personnel Services | | | | 2,562,718 | 327,556 | | 745,494 | 3,635,768 |
| Contract Services | | | | 923,750 | 105,704 | | 87,855 | 1,117,309 |
| Commodities | | | | 214,613 | 17,184 | | 4,666 | 236,463 |
| Capital Outlay | | | | 26,480 | 3,790 | | 48,886 | 79,156 |
| Maintenance and Supplies | 3,064 | | | | | 12,638 | | 15,702 |
| Reserve Funds | | | 127,789 | | | | | 127,789 |
| Total Expenditures | 3,064 | - | 127,789 | 3,727,561 | 454,234 | 12,638 | 886,901 | 5,212,187 |
| Excess of Revenues Over (Under) Expenditures | (2,391) | 224 | (74,095) | 6,933 | 31,018 | 24,666 | 102,184 | 88,539 |
| Other Financing Sources (Uses) | | | | | | | | |
| Transfers from Other Funds | | | 65,404 | | | | | 65,404 |
| Transfers to Other Funds | | | (35,000) | | | | | (35,000) |
| Total Other Financing Sources (Uses) | - | - | 30,404 | - | - | - | - | 30,404 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (2,391) | 224 | (43,691) | 6,933 | 31,018 | 24,666 | 102,184 | 118,943 |
| Fund Balance - January 1 | 9,801 | 20,311 | 735,000 | 141,833 | 42,353 | 194,644 | 69,854 | 1,213,796 |
| Fund Balance - December 31 | 7,410 | 20,535 | 691,309 | 148,766 | 73,371 | 219,310 | 172,038 | 1,332,739 |

**COUNTY OF KNOX
GENERAL RESERVES
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 | 11,242 | | 3,000 | 306 | (185) | | (227) | 14,136 |
| Contingency | 104,309 | | | 2,896 | (1,625) | | | 105,580 |
| Courthouse Computer | 34,600 | | | 731 | (383) | | (7,724) | 27,224 |
| Courthouse Furniture/Fixtures | 12,459 | | | 345 | (194) | | | 12,610 |
| Deeds Surcharge | 59,740 | 29,010 | | 1,823 | (870) | | (14,967) | 74,736 |
| Dispatch Computer | 8,896 | | | 215 | (140) | | (1,425) | 7,546 |
| Dispatch Miscellaneous | 24,816 | | 15,000 | 262 | (317) | | (18,477) | 21,284 |
| Dispatch Renovations | 146 | | | 2 | (3) | | (145) | - |
| EMA Disaster Fund | 20,262 | | | 560 | (311) | | | 20,511 |
| Forfeiture Money - State | 84,192 | 2,352 | | 2,201 | (1,317) | | (12,982) | 74,446 |
| Generator Reserve | 3,299 | 10,447 | | 123 | 8 | | | 13,877 |
| Health Insurance | 40,776 | | | 1,128 | (631) | | (5,129) | 36,144 |
| Jail Computer | 15,098 | | | 417 | (235) | | | 15,280 |
| Jail Professional Services | 37,179 | | | 1,028 | (577) | | | 37,630 |
| Jail Training | 8,035 | | | 222 | (124) | | | 8,133 |
| Legal | 111,469 | | 35,000 | 3,022 | (160) | | (37,262) | 112,069 |
| Orthoimagery | - | | 12,404 | | | | | 12,404 |
| Probate Surcharge | 21,601 | 2,770 | | 628 | (330) | | | 24,669 |
| Resignation Benefits | 36,664 | | | 721 | (465) | | (24,396) | 12,524 |
| Safety | 13,060 | | | 361 | (205) | | | 13,216 |
| Security Deposit | 830 | | | 23 | (13) | | | 840 |
| Sheriff's Computer | 25,156 | | | 693 | (394) | | (1,993) | 23,462 |
| Unemployment | 61,171 | | | 893 | (1,014) | (35,000) | (3,062) | 22,988 |
| Total | 735,000 | 44,579 | 65,404 | 18,600 | (9,485) | (35,000) | (127,789) | 691,309 |

COUNTY OF KNOX
 GRANT FUNDS
 BALANCE SHEET
 DECEMBER 31, 2012

Exhibit B-1

| <i>Assets</i> | <i>JAG Grant</i> | <i>Wellness Grant</i> | <i>Local Emergency Planning Committee</i> | <i>Underage Drinking Grant</i> | <i>MMA Safety Grant</i> | <i>Totals</i> |
|--|----------------------|---------------------------|---|--|---------------------------------|----------------|
| Cash and Equivalents | | | 36,042 | | | 36,042 |
| Due from Other Governments | 25,013 | | 222,246 | | 860 | 248,119 |
| Due from Other Funds | | 269 | | 1,343 | | 1,612 |
| Total Assets | 25,013 | 269 | 258,288 | 1,343 | 860 | 285,773 |
| <i>Liabilities and Fund Balances</i> | | | | | | |
| Liabilities | | | | | | |
| Due to Other Funds | 25,013 | | 222,520 | | 860 | 248,393 |
| Total Liabilities | 25,013 | | 222,520 | | 860 | 248,393 |
| Fund Balances | | | | | | |
| Restricted | | 269 | 35,768 | 1,343 | | 37,380 |
| Unassigned | | | | | | |
| Total Fund Balances | - | 269 | 35,768 | 1,343 | - | 37,380 |
| Total Liabilities and Fund Balances | 25,013 | 269 | 258,288 | 1,343 | 860 | 285,773 |

**COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2012**

*Exhibit B-2
 Page 1 of 2*

| | <i>JAG Grant</i> | <i>EMPC Local Capacity</i> | <i>Wellness Grant</i> | <i>Victim/Witness Advocate Grant</i> | <i>Local Emergency Planning Committee</i> | <i>Holiday HV Impaired Driving Enforcement</i> |
|---|----------------------|------------------------------------|---------------------------|--|---|--|
| Revenues | | | | | | |
| Intergovernmental Revenues | | | | | | |
| Federal | 24,133 | | | 46,542 | 170,340 | 6,138 |
| State | | | | | | |
| Local Sources | | 296 | 3,010 | | 4,005 | |
| Fair Value Increase (Decrease) | | | | | | |
| Interest | | | | | 53 | |
| Total Revenues | 24,133 | 296 | 3,010 | 46,542 | 174,398 | 6,138 |
| Expenditures | | | | | | |
| Personnel Services | | | | 59,922 | 4,865 | 6,138 |
| Contract Services | | | | 20 | | |
| Commodities | | | | | | |
| Capital Outlay | 24,133 | | | | | |
| Other | | | 3,142 | 27,271 | 151,898 | |
| Total Expenditures | 24,133 | - | 3,142 | 87,213 | 156,763 | 6,138 |
| Excess of Revenues Over (Under) Expenditures | - | 296 | (132) | (40,671) | 17,635 | - |
| Other Financing Sources (Uses) | | | | | | |
| Transfers from Other Funds | | | | 37,649 | | |
| Transfers to Other funds | | | | | | |
| Total Other Financing Sources (Uses) | - | - | - | 37,649 | - | - |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | - | 296 | (132) | (3,022) | 17,635 | - |
| Fund Balance - January 1 | | (296) | 401 | 3,022 | 18,133 | - |
| Fund Balance - December 31 | - | - | 269 | - | 35,768 | - |

*COUNTY OF KNOX
 ALL SPECIAL REVENUE FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2012*

*Exhibit B-2
 Page 2 of 2*

| | <i>Energy Efficient Grant</i> | <i>Underage Drinking Grant</i> | <i>MMA Safety Grant</i> | <i>Buckle-Up No Excuses</i> | <i>Totals</i> |
|---|---------------------------------------|--|---------------------------------|---------------------------------|-----------------|
| Revenues | | | | | |
| Intergovernmental Revenues | | | | | |
| Federal | | | | 1,764 | 248,917 |
| State | | | | | - |
| Local Sources | | | 860 | | 8,171 |
| Fair Value Increase (Decrease) | (1,073) | | | | (1,073) |
| Interest | 548 | | | | 601 |
| Total Revenues | <u>(525)</u> | <u>-</u> | <u>860</u> | <u>1,764</u> | <u>256,616</u> |
| Expenditures | | | | | |
| Personnel Services | | 1,395 | | 1,764 | 74,084 |
| Contract Services | | 644 | | | 664 |
| Commodities | | | | | - |
| Capital Outlay | 65,188 | | | | 89,321 |
| Other | | | 860 | | 183,171 |
| Total Expenditures | <u>65,188</u> | <u>2,039</u> | <u>860</u> | <u>1,764</u> | <u>347,240</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(65,713)</u> | <u>(2,039)</u> | <u>-</u> | <u>-</u> | <u>(90,624)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers from Other Funds | | | | | 37,649 |
| Transfers to Other Funds | | | | | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>37,649</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(65,713)</u> | <u>(2,039)</u> | <u>-</u> | <u>-</u> | <u>(52,975)</u> |
| Fund Balance - January 1 | <u>65,713</u> | <u>3,382</u> | | | <u>90,355</u> |
| Fund Balance - December 31 | <u>-</u> | <u>1,343</u> | <u>-</u> | <u>-</u> | <u>37,380</u> |

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 BALANCE SHEET
 DECEMBER 31, 2012

Exhibit C-1
 Page 1 of 2

| <i>Assets</i> | <i>Airport Snow Removal Equipment</i> | <i>Airport Obstruction Analysis</i> | <i>Airport Miscellaneous Improvements</i> | <i>Airport Desing & Permitting</i> | <i>Airport Terminal Study Bus. Plan</i> |
|--|---|---|---|--|---|
| Cash and Equivalents | | | | | |
| Investments | | | | | |
| Due from Other Funds | | | | | |
| Due from Other Governments | | 26,201 | 4,231 | 69,459 | |
| Total Assets | - | 26,201 | 4,231 | 69,459 | - |
| <i>Liabilities and Fund Balances</i> | | | | | |
| Liabilities | | | | | |
| Retainage Payable | | | | | |
| Due to Other Funds | 18 | 14,210 | 4,256 | 69,440 | 104 |
| Total Liabilities | 18 | 14,210 | 4,256 | 69,440 | 104 |
| Fund Balances | | | | | |
| Restricted | | 11,991 | | 19 | |
| Committed | | | | | |
| Unassigned | (18) | | (25) | | (104) |
| Total Fund Balances | (18) | 11,991 | (25) | 19 | (104) |
| Total Liabilities and Fund Balances | - | 26,201 | 4,231 | 69,459 | - |

COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 BALANCE SHEET
 DECEMBER 31, 2012

Exhibit C-1
 Page 2 of 2

| <i>Assets</i> | <i>Airport Master Plan Update</i> | <i>Airport Snow Removal Truck & Trailer</i> | <i>Airport Aviation Easements</i> | <i>301Park Street Building</i> | <i>Capital Improvements</i> | <i>Totals</i> |
|--|---|---|---|--|---------------------------------|------------------|
| Cash and Equivalents | | | | 674,818 | 709,141 | 1,383,959 |
| Accounts Receivable | | | | | 3,347 | 3,347 |
| Due from Other Funds | | | | | 14,517 | 14,517 |
| Due from Other Governments | 11,034 | 3,235 | 184,311 | | | 298,471 |
| Total Assets | 11,034 | 3,235 | 184,311 | 674,818 | 727,005 | 1,700,294 |
| <i>Liabilities and Fund Balances</i> | | | | | | |
| Liabilities | | | | | | |
| Retainage Payable | | | | 58,924 | | 58,924 |
| Due to Other Funds | 11,034 | 3,249 | 184,311 | | 5,910 | 292,532 |
| Total Liabilities | 11,034 | 3,249 | 184,311 | 58,924 | 5,910 | 351,456 |
| Fund Balances | | | | | | |
| Restricted | | | | | | 12,010 |
| Committed | | | | 615,894 | 721,095 | 1,336,989 |
| Unassigned | | (14) | | | | (161) |
| Total Fund Balances | - | (14) | - | 615,894 | 721,095 | 1,348,838 |
| Total Liabilities and Fund Balances | 11,034 | 3,235 | 184,311 | 674,818 | 727,005 | 1,700,294 |

*COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2012*

*Exhibit C-2
 Page 1 of 3*

| | <i>Airport Snow Removal Equipment</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 Miscellaneous Improvements</i> |
|--|---|--|---|---|---|---|
| Revenues | | | | | | |
| Intergovernmental Revenues | | | | | | |
| Federal | 204,226 | | 32,602 | | 10,508 | 76,151 |
| State | 5,374 | | 860 | | 277 | 4,231 |
| Local Sources | | | | | | |
| Total Revenues | 209,600 | 0 | 33,462 | - | 10,785 | 80,382 |
| Expenditures | | | | | | |
| Engineering Services | 1,397 | | 21,888 | | 10,973 | 33,718 |
| Construction | | | | | | 47,564 |
| Equipment | 212,161 | | | | | |
| Land Purchase | | | | | | |
| Professional Services | 122 | 2,003 | 121 | 107 | 122 | |
| All Other | 18 | | 13 | | | 844 |
| Total Expenditures | 213,698 | 2,003 | 22,022 | 107 | 11,095 | 82,126 |
| Excess of Revenues Over (Under) | | | | | | |
| Expenditures | (4,098) | (2,003) | 11,440 | (107) | (310) | (1,744) |
| Other Financing Sources (Uses) | | | | | | |
| Bond Proceeds | | | | | | |
| Transfers from Other Funds | 5,375 | 2,346 | 551 | 1,295 | 310 | 4,231 |
| Transfers to Other Funds | (1,295) | | | (60) | | (2,512) |
| Total Other Financing Sources (Uses) | 4,080 | 2,346 | 551 | 1,235 | 310 | 1,719 |
| Excess of Revenues and Other Sources Over (Under) | | | | | | |
| Expenditures and Other Uses | (18) | 343 | 11,991 | 1,128 | - | (25) |
| Fund Balance - January 1 | - | (343) | | (1,128) | - | - |
| Fund Balance - December 31 | (18) | - | 11,991 | - | - | (25) |

**COUNTY OF KNOX
 ALL CAPITAL PROJECT FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2012**

*Exhibit C-2
 Page 2 of 3*

| | <i>Airport Terminal Final Design</i> | <i>Airport Pavement Maintenance</i> | <i>Airport #30 Terminal Construction</i> | <i>Airport Design & Permitting</i> | <i>Airport #33 Terminal Construction</i> | <i>Airport Terminal Study Bus. Plan</i> |
|---|--|---|--|--|--|---|
| Revenues | | | | | | |
| Intergovernmental Revenues | | | | | | |
| Federal | | | | 129,164 | | |
| State | | | | 7,175 | | |
| Local Sources | | | 1,012 | | | |
| Total Revenues | - | - | 1,012 | 136,339 | - | - |
| Expenditures | | | | | | |
| Engineering Services | | | | 142,331 | | |
| Construction | | | | | | |
| Equipment | | | | | | |
| Land Purchase | | | | | | |
| Professional Services | | 121 | | 1,090 | | 107 |
| All Other | | 19 | | 74 | | |
| Total Expenditures | - | 140 | 0 | 143,495 | 0 | 107 |
| Excess of Revenues Over (Under) | | | | | | |
| Expenditures | - | (140) | 1,012 | (7,156) | 0 | (107) |
| Other Financing Sources (Uses) | | | | | | |
| Bond Proceeds | | | | | | |
| Transfers from Other Funds | | 140 | 4 | 7,175 | 22 | 3 |
| Transfers to Other Funds | (25) | | | | (10) | |
| Total Other Financing Sources (Uses) | (25) | 140 | 4 | 7,175 | 12 | 3 |
| Excess of Revenues and Other Sources Over (Under) | | | | | | |
| Expenditures and Other Uses | (25) | - | 1,016 | 19 | 12 | (104) |
| Fund Balance - January 1 | 25 | - | (1,016) | - | (12) | - |
| Fund Balance - December 31 | - | - | - | 19 | - | (104) |

COUNTY OF KNOX
ALL CAPITAL PROJECT FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

Exhibit C-2
Page 3 of 3

| | <i>Airport Master Plan Update</i> | <i>Airport Snow Removal Truck & Trailer</i> | <i>Airport Aviation Easements</i> | <i>301Park Street Building</i> | <i>Capital Improvements</i> | <i>Totals</i> |
|---|---|---|---|--|---------------------------------|------------------|
| Revenues | | | | | | |
| Intergovernmental Revenues | | | | | | |
| Federal | 19,257 | 58,211 | 174,611 | 210,940 | | 915,670 |
| State | | 3,235 | 9,700 | | | 30,852 |
| Local Sources | | | | 10,245 | 49,743 | 61,000 |
| Total Revenues | 19,257 | 61,446 | 184,311 | 221,185 | 49,743 | 1,007,522 |
| Expenditures | | | | | | |
| Engineering Services | 18,445 | 2,990 | 182,519 | 91,001 | | 505,262 |
| Construction | 2,900 | | | 1,178,486 | | 1,228,950 |
| Equipment | | 61,651 | | 333,425 | | 607,237 |
| Land Purchase | | | | 495,317 | | 495,317 |
| Professional Services | | | 11,493 | 33,500 | | 48,786 |
| All Other | 52 | 54 | | 36,409 | 11,513 | 48,996 |
| Total Expenditures | 21,397 | 64,695 | 194,012 | 2,168,138 | 11,513 | 2,934,548 |
| Excess of Revenues Over (Under) | | | | | | |
| Expenditures | (2,140) | (3,249) | (9,701) | (1,946,953) | 38,230 | (1,927,026) |
| Other Financing Sources (Uses) | | | | | | |
| Bond Proceeds | | | | 2,562,847 | | 2,562,847 |
| Transfers from Other Funds | 2,140 | 3,235 | 9,701 | | 26,574 | 63,102 |
| Transfers to Other Funds | | | | | (39,200) | (43,102) |
| Total Other Financing Sources (Uses) | 2,140 | 3,235 | 9,701 | 2,562,847 | (12,626) | 2,582,847 |
| Excess of Revenues and Other Sources Over (Under) | | | | | | |
| Expenditures and Other Uses | - | (14) | - | 615,894 | 25,604 | 655,821 |
| Fund Balance - January 1 | - | - | - | - | 695,491 | 693,017 |
| Fund Balance - December 31 | - | (14) | - | 615,894 | 721,095 | 1,348,838 |

**COUNTY OF KNOX
CAPITAL IMPROVEMENTS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2012**

Exhibit C-3

| <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> |
|---------------------------------|---------------------------------------|----------------------|---|-----------------|--|---|---------------------|---|
| Courthouse Maintenance | 142,539 | | | 3,488 | (1,102) | | (3,400) | 141,525 |
| Forfeiture Money - Federal | 229,207 | | | 6,351 | (3,530) | | (1,801) | 230,227 |
| Jail Capital | 99,743 | | | 2,366 | (1,328) | | | 100,781 |
| Jail Vehicle | 9,375 | | | 259 | (146) | | | 9,488 |
| Knox County Building | 132,024 | | | 3,651 | (2,045) | | | 133,630 |
| Sheriff's Vehicle | 817 | 4,565 | | 53 | (5) | | (5,385) | 45 |
| Airport | 34,373 | | | 952 | (556) | (6,480) | | 28,289 |
| Airport Passenger Facility | | 36,060 | | 320 | 17 | (9,606) | | 26,791 |
| Airport Miscellaneous Equipment | 24,283 | | 8,060 | 849 | (494) | (5,375) | | 27,323 |
| Airport Projects | 23,130 | | 18,514 | 859 | (841) | (17,739) | (927) | 22,996 |
| Total | 695,491 | 40,625 | 26,574 | 19,148 | (10,030) | (39,200) | (11,513) | 721,095 |

COUNTY OF KNOX
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2012

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 | 11,863 | 71,817 | (71,016) | 12,664 |
| <i>Liabilities</i> | | | | |
| Due to Inmates | 11,863 | 71,817 | (71,016) | 12,664 |

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

July 5, 2013

County Commissioners
County of Knox
Rockland, ME 04841

We have audited, in accordance with the 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the County of Knox, Maine's basic financial statements and have issued our report thereon dated July 5, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County of Knox, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County of Knox, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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, 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 weakness 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, 2012-01 and 2012-02.

A significant deficiency is a deficiency, or 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. We did not identify any significant deficiencies.

Compliance and Other Matters

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

County of Knox, Maine's Response to Findings

County of Knox, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. County of Knox, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRULAR A-133***

July 5, 2013

County Commissioners
County of Knox
Milo, ME 04463

Report on Compliance for Each Major Federal Program

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 Mio, Maine's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of County of Knox, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County of Knox, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, County of Knox, Maine complied, in all material respects, with the types of 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, 2012.

Report on Internal Control Over Compliance

Management of the County of Knox, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Knox, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2012

2011-01 District Attorney Restitution Account

Condition: During the audit the restitution accounts were reviewed. 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.

Current year status: The DA's office has been working on paying the old restitution. Some more work will be done in the current year.

2011-02 Financial Statement Preparation

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

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

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

Effect: The auditor prepares the financial statements.

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

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

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

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 7, 2012. They also agree to have the engineer monitor the contractor's to be in full compliance with the Davis Bacon Act.

Current Year Status: Restitution was paid to the employees. The county is in compliance with Davis Bacon for the current year.

SCHEDULE II
COUNTY OF KNOX
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

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. No conditions relating to the audit of the major federal award programs are reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award program for the County of Knox, Maine expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the County of Knox, Maine are reported in Part C of this schedule.
7. The programs tested as a major programs are :

FAA – Airport Improvements CFDA # 20.106.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County of Knox, Maine was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-01 District Attorney Restitution Account

Condition: During the audit it the restitution accounts were reviews. All of 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 has been working on reconciling the restitution accounts.

2012-02 Financial Statement Preparation

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

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

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

Effect: The auditor prepares the financial statements.

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

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

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

N/A

**COUNTY OF KNOX
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

**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 | | | | |
| High Visibility Driving Enforcement | 20.601 | AL 12-036 | 4,979 | 4,836 |
| Holiday HV Impaired Driving Enforcement | 20.601 | HE 12-037 | 4,872 | 1,302 |
| Buckle Up - No Excuses | 20.609 | OP 12-041 | 1,890 | 1,764 |
| | | | <u>11,741</u> | <u>7,902</u> |
| Federal Aviation Administration | | | | |
| Airport Improvements - RSA/Wildlife Study | * | 20.106 | 125,000 | 10,508 |
| Airport Improvements - Design & Permitting | * | 20.106 | 409,500 | 129,164 |
| Airport Improvements - Misc. Airport Improvements | * | 20.106 | 83,700 | 76,151 |
| Airport Improvements - Snow Removal Equipment | * | 20.106 | 235,000 | 204,226 |
| Airport Improvements - Master Plan Update | * | 20.106 | 142,200 | 19,257 |
| Airport Improvements - Snow Removal Truck | * | 20.106 | 59,400 | 58,211 |
| Airport Improvements - Obstruction Analysis | * | 20.106 | 199,300 | 20,921 |
| Airport Improvements - Aviation Easement | * | 20.106 | 328,500 | 174,611 |
| Total Federal Aviation Administration | | | <u>1,582,600</u> | <u>693,049</u> |
| Total U.S. Department of Transportation | | | <u>1,594,341</u> | <u>700,951</u> |
| U.S. Department of Homeland Security | | | | |
| Airport Security | 97.090 | | 358,234 | 66,407 |
| Airport Security | 97.090 | HSTS02-12-R-SLR349 | 332,090 | 11,943 |
| | | | <u>690,324</u> | <u>78,350</u> |
| Passed Through Maine Emergency Management Agency | | | | |
| Training Equipment | 97.067 | HM8059 | 25,704 | 17,118 |
| 2011 Exercise | 97.067 | HM8060 | 6,345 | 83 |
| Shared Generator | 97.067 | HM8064 | 32,500 | 32,500 |
| Special Project EMPG | 97.067 | HM8065 | 186,230 | 186,230 |
| Homeland Security | 97.067 | HM8068 | 24,710 | 24,710 |
| HSGP Antennas, Other Equip. | 97.067 | HM8046 | 30,865 | 8,365 |
| EMA Project | 97.067 | HM8049 | 12,466 | 10,633 |
| EMA Exercise | 97.067 | HM8050 | 10,575 | 5,198 |
| Races/Cert/EmComm | 97.067 | HM8051 | 8,648 | 452 |
| Rapid Response Traf Cnt | 97.067 | HM8052 | 13,791 | 926 |

COUNTY OF KNOX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

| <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 | HM8053 | 30,000 | 14,997 |
| Hazmat Capital Gear | 97.067 | HM8054 | 18,065 | 17,168 |
| HSPG Emergency Planner | 97.067 | HM8057 | 40,000 | 22,088 |
| | | | <u>439,899</u> | <u>340,468</u> |
| Hazmat Ops Training | 97.020 | HM8013 | 31,081 | 1,475 |
| EQ Support | 97.004 | HM8047 | 2,325 | 1,198 |
| RRT6 Support | 97.006 | HM8048 | 7,273 | 1,157 |
| Cert / Ares / Races | 97.053 | | 16,000 | 2,383 |
| Total U.S. Department of Homeland Security | | | <u>1,186,902</u> | <u>425,031</u> |
| U.S. Department of Commerce Passed Through Maine Emergency Management Agency | | | | |
| Narrow-Band Planning | 11.555 | HM8055 | 14,950 | 75 |
| PSIC | 11.555 | HM8058 | 793 | 793 |
| PSIC 2 | 11.555 | HM8063 | 15,550 | 15,550 |
| Total U.S. Department of Commerce | | | <u>31,293</u> | <u>16,418</u> |
| U.S. Department of Energy Energy Efficient Conservation Block Grant | 81.128 | DE-RW0000262 | 174,900 | 65,188 |
| Total U.S. Department of Energy | | | <u>174,900</u> | <u>65,188</u> |
| U.S. Department of Justice Passed Through Maine Department of Human Services | | | | |
| Crime Victims Assistance | 16.575 | CFS-12-2304 | 46,543 | 21,196 |
| Crime Victims Assistance | 16.575 | CFS-13-2304 | 46,543 | 25,347 |
| | | | <u>93,086</u> | <u>46,543</u> |
| Passed through City of Rockland Underage Drinking Grant | 16.727 | | 4,000 | 2,039 |
| ARRA - JAG | 16.804 | 2009-SB-B9-3332 | 27,823 | 24,133 |
| | | | <u>31,823</u> | <u>26,172</u> |
| Total U.S. Department of Justice | | | <u>124,909</u> | <u>72,715</u> |
| Total | | | <u>3,112,345</u> | <u>1,280,303</u> |

COUNTY OF KNOX
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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.