

**BENTON COUNTY
FOLEY, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2006

**BENTON COUNTY
FOLEY, MINNESOTA
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INTRODUCTORY SECTION

**BENTON COUNTY
FOLEY, MINNESOTA
ORGANIZATION
DECEMBER 31, 2006**

Office	Name	Term	
		From	To
<u>Commissioners</u>			
1st District	Duane J. Walter	January 2005	January 2009
2nd District	Daniel Lieser	January 2003	January 2007
3rd District	Duane Grandy *	January 2003	January 2007
4th District	Richard J. Soyka	January 2005	January 2009
5th District	Earl Bukowski	January 2005	January 2009
<u>Officers</u>			
<u>Elected</u>			
Attorney	Robert Raupp	January 2003	January 2007
Auditor/Treasurer	Joan Neyssen	January 2003	January 2007
Coroner	Clifford Stiles, M.D.	January 2003	January 2007
County Recorder	Marilyn Novak	January 2003	January 2007
Sheriff	James McMahan, Sr.	January 2003	January 2007
<u>Appointed</u>			
Administrator	Montgomery Headley	Indefinite	
Assessor	Brian Koester	January 2005	January 2009
Court Administrator	Timothy Roberts	Indefinite	
Development Director	Chelle Benson	Indefinite	
Highway Engineer	Robert H. Kozel, P.E.	May 2005	May 2009
<u>Human Services</u>			
<u>Board</u>			
Member	Earl Bukowski	January 2005	January 2009
Chair	Daniel Lieser	January 2003	January 2007
Member	Duane J. Walter	January 2005	January 2009
Vice Chair	Richard J. Soyka	January 2005	January 2009
Member	Duane Grandy	January 2003	January 2007
<u>Director</u>	Timothy Martin	Indefinite	

* Chair

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Benton County
Foley, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton County, Minnesota as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of Benton County's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Benton County, as of December 31, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2007, on our consideration of Benton County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of the audit.

The management's discussion and analysis and the other required supplementary information, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Benton County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



LarsonAllen LLP

Brainerd, Minnesota
August 3, 2007

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REQUIRED SUPPLEMENTARY INFORMATION

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

This section of Benton County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2006. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2006, and the prior year, 2005, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005-2006 fiscal years include the following:

- ◆ County-wide net assets increased 8.4 percent over the prior year.
- ◆ Overall fund-level revenues totaled \$33,476,331 and were \$796,906 less than expenditures. The planned use of resources received in prior years for road and other capital projects fully covered this current year funding gap.
- ◆ The General Fund's fund balance increased \$1,227,670 from the prior year, due primarily to higher than expected interest income and the reversion of contingency budgets. While General Fund revenues increased 11.3 percent, General Fund expenditures grew by only 8.4 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, Required Supplementary Information which includes the Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information other than MD&A. The basic financial statements include two kinds of statements that present different views of the county:

- ◆ The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- ◆ The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the county-wide statements.
- ◆ The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short term as well as what remains for future spending.
- ◆ Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

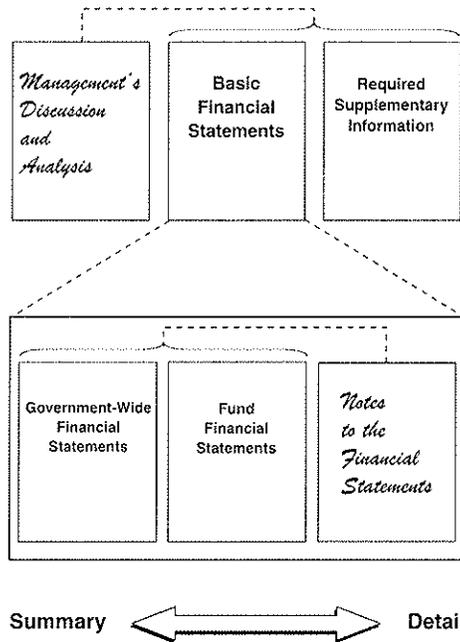
**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide And Fund Financial Statements			
Type of statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net assets.	Balance sheet.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term; agency funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

County-Wide Statements

The county-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's net assets and how they have changed. Net assets – the difference between the County's assets and liabilities – are one way to measure the County's financial health or position.

- ◆ Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

County-Wide Statements (Continued)

- ◆ To assess the overall health of the County you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

In the County-wide financial statements the County's activities are shown in one category:

- ◆ Governmental activities – the County's basic services are included here. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The County has two kinds of funds:

- ◆ Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- ◆ Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$65,123,742 on December 31, 2006. (See Table A-1).

The large increase in restricted net assets was due primarily to classifying resources in the Miscellaneous Special Revenue Fund as restricted. This fund includes solid waste management assessment revenue, 911 surcharge fees, and various other restricted revenues. Most of the decline in unrestricted net assets is explained by the reclassification of the Miscellaneous Special Revenue Fund.

**Table A-1
The County's Net Assets**

	Governmental Activities		Percentage Change
	2006	2005	
Current and Other Assets	\$ 22,114,498	\$ 23,418,044	(5.6)%
Capital and Noncurrent Assets	61,685,863	56,366,782	9.4
Total Assets	83,800,361	79,784,826	5.0
Current Liabilities	3,673,307	3,459,556	6.2
Long-Term Liabilities	15,003,312	16,651,370	(9.9)
Total Liabilities	18,676,619	20,110,926	(7.1)
Net Assets			
Invested in Capital Assets			
Net of Related Debt	46,601,438	39,958,452	16.6
Restricted	3,348,795	1,609,370	108.1
Unrestricted	15,173,509	18,106,078	(16.2)
Total Net Assets	\$ 65,123,742	\$ 59,673,900	9.1

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

Changes in Net Assets

The County-wide total revenues were \$32,783,754 for the year ended December 31, 2006. Property taxes and intergovernmental revenues accounted for 86.1% of total revenue for the year. This portion of total revenues is a decrease of 3.6% from the prior year (See Figure Table A-2.)

**Table A-2
Change in Net Assets**

	Governmental Activities for the fiscal year ended December 31,		Total % Change
	2006	2005	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 3,346,221	\$ 2,511,682	33.2 %
Operating Grants and Contributions	7,645,788	9,781,924	(21.8)
Capital Grants and Contributions	1,790,823	2,020,422	(11.4)
<u>General Revenues</u>			
Property Taxes	15,322,707	13,960,146	9.8
Unrestricted State Aid	3,456,499	3,366,504	2.7
Investment Earnings	918,173	548,604	67.4
Other	303,543	297,080	2.2
Total Revenues	<u>32,783,754</u>	<u>32,486,362</u>	0.9
Expenses			
General Government	4,847,503	4,630,775	4.7
Public Safety	6,428,193	5,837,151	10.1
Highways and Streets	4,573,316	6,017,479	(24.0)
Human Services	8,403,480	7,486,794	12.2
Health	779,159	761,666	2.3
Culture and Recreation	480,633	440,622	9.1
Conservation of Natural Resources	611,281	516,851	18.3
Economic Development	574,250	408,725	40.5
Interest and Fiscal Charges on Long-term Liabilities	636,097	751,035	(15.3)
Total Expenses	<u>27,333,912</u>	<u>26,851,098</u>	1.8
Increase in Net Assets	5,449,842	5,635,264	(3.3)
Net Assets - Beginning of Year	59,673,900	54,038,636	10.4
Net Assets - End of Year	<u>\$ 65,123,742</u>	<u>\$ 59,673,900</u>	9.1

Improvements to the County's infrastructure outpaced depreciation expense considerably, explaining much of the \$5.4 million increase in net assets. Also, the County completed the new Public Works Facility, yet added no new bonded debt in 2006, further improving net assets.

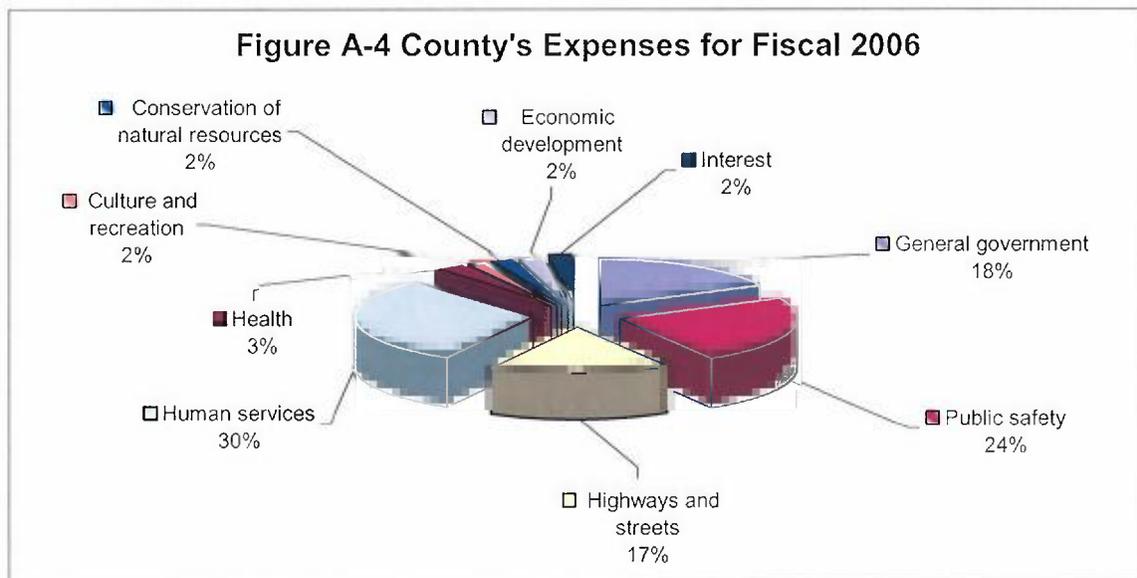
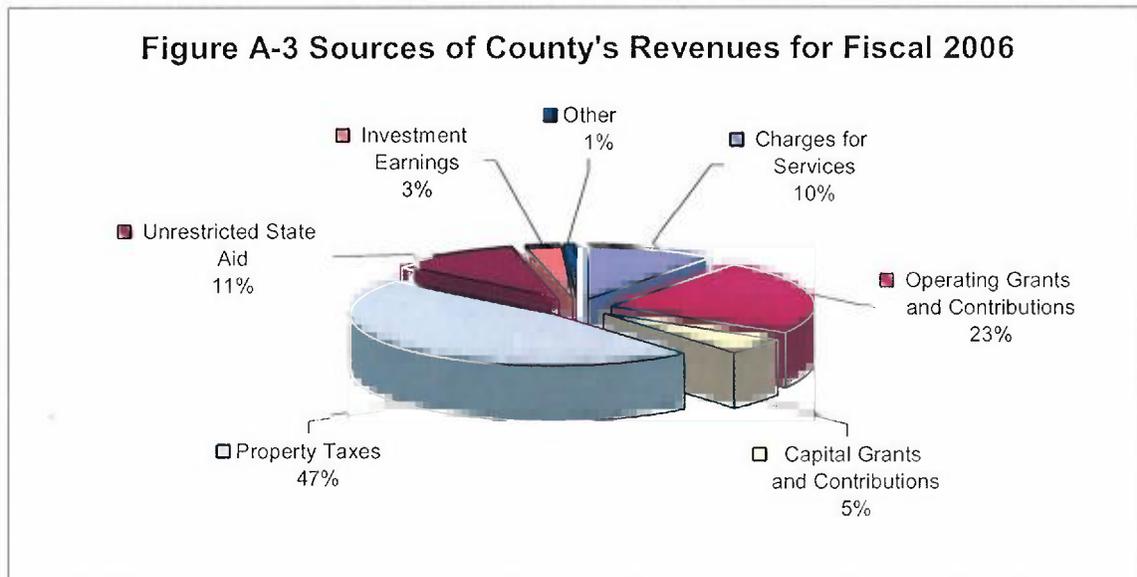
**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

The County-wide cost of all governmental activities this year was \$27,333,912.

- ◆ Some of the cost was paid by the users of the County's programs (\$3,346,221).
- ◆ The federal and state governments contributed to certain programs with grants and contributions (\$9,436,611).
- ◆ A significant portion of the County's costs (\$14,551,080) were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$15,322,707 in property taxes, \$3,456,499 of state aid, and with \$1,221,716 from investment earnings and other general revenues.



**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-3
Program Expenses and Net Cost of Services

	<u>Total Cost of Services</u>		Percent Change	<u>Net Cost of Services</u>		Percent Change
	2006	2005		2006	2005	
General Government	\$ 4,847,503	\$ 4,630,775	4.7 %	\$ 3,142,949	\$ 3,739,858	(16.0)%
Public Safety	6,428,193	5,837,151	10.1	4,790,866	4,265,526	12.3
Highways and Streets	4,573,316	6,017,479	(24.0)	1,721,132	788,794	118.2
Human Services	8,403,480	7,486,794	12.2	2,936,382	1,982,463	48.1
Health	779,159	761,666	2.3	263,990	339,368	(22.2)
Culture and Recreation	480,633	440,622	9.1	345,166	301,396	14.5
Conservation of Natural Resources	611,281	516,851	18.3	168,865	89,053	(89.6)
Economic Development	574,250	408,725	40.5	545,633	279,577	95.2
Interest and Fiscal Charges on Long-Term Liabilities	636,097	751,035	(15.3)	636,097	751,035	(15.3)
Total	<u>\$ 27,333,912</u>	<u>\$ 26,851,098</u>	1.8	<u>\$ 14,551,080</u>	<u>\$ 12,537,070</u>	16.1

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$19,239,093.

Revenues for the County's governmental funds were \$33,476,331, while total expenditures were \$34,273,237. During 2006, the County did not issue any additional long-term debt.

GENERAL FUND

Includes the general governmental functions of the County not otherwise accounted for in another fund.

ROAD AND BRIDGE FUND

Accounts for financial activity related to the construction and maintenance of the County road system, including County state-aid highways and County roads.

HUMAN SERVICES FUND

Accounts for financial activity related to the provision of social services, medical and financial assistance, and public health.

MISCELLANEOUS SPECIAL REVENUE FUND

Accounts for the financial activity related to a number of smaller activities.

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

DEBT SERVICE FUND

Accounts for principal, interest, and fiscal agent fees associated with the County's outstanding debt, including general obligation debt and capital leases.

CAPITAL PROJECTS FUND

Accounts for the financing of multi-year capital projects, including those funded with Capital Improvement Plan bonds.

The following schedule presents a summary of General Fund revenues:

**TABLE A-4
GENERAL FUND REVENUES**

Fund	Year Ended		Change	
	December 31, 2006	December 31, 2005	Increase (Decrease)	Percent
Taxes	\$ 8,200,251	\$ 7,408,591	\$ 791,660	10.7 %
Intergovernmental	1,894,841	1,969,316	(74,475)	(3.8)
Charges for services	1,896,357	1,675,845	220,512	13.2
Investment earnings	903,568	436,588	466,980	107.0
Miscellaneous and other	362,612	425,370	(62,758)	(14.8)
Total General Fund Revenue	<u>\$ 13,257,629</u>	<u>\$ 11,915,710</u>	<u>\$ 1,341,919</u>	<u>11.3</u>

Total General Fund revenue increased by \$1,341,919, or 11.3%, from the previous year. Increased tax levies supported new funding for County road improvements, restoring road maintenance budgets cut in 2004, new positions related to workload and population growth, and wage and benefit increases in labor agreements. Interest earnings showed dramatic improvements with rising investment rates and recovering cash balances.

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2006	December 31, 2005	Increase (Decrease)	Percent
General Government	\$ 4,512,920	\$ 4,248,778	\$ 264,142	6.2 %
Public Safety	5,869,730	5,475,673	394,057	7.2
Health	25,031	26,953	(1,922)	(7.1)
Culture and Recreation	466,209	441,432	24,777	5.6
Conservation of Natural Resources	323,442	255,018	68,424	26.8
Economic Development	542,150	403,018	139,132	34.5
Debt Service	7,704	-	7,704	100.0
Total Expenditures	<u>\$ 11,747,186</u>	<u>\$ 10,850,872</u>	<u>\$ 896,314</u>	<u>8.3</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County revised the General Fund operating budget to reflect prior year carry-over funds, the appropriation of reserves for a new Highway Department cold storage building and for minor reallocations between departments.

- ◆ Actual revenues were \$957,821 more than budgeted. This favorable variance is due primarily to improved interest earnings and the County's practice of not budgeting for its dividend payment from the Minnesota Counties Insurance Trust.
- ◆ Actual expenditures were \$690,598 less than budget. The adopted budget reflects full-funding for all approved positions, including new positions approved for 2006. Vacancy savings, combined with unspent contingencies produced most of this under-budget condition.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The Capital Projects Fund accounts for the use of bond proceeds, State County Program Aid, and other resources to finance the purchase or improvement of capital assets. Activity during 2006 was related to the completion of a new Public Works facility, renovations of the old Public Works facility, roofing projects, and replacement of the jail door and camera control system.

An annual levy is made to fund the bond payments for all previous bond issues.

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

CAPITAL ASSETS

By the end of 2006, the County had invested over \$101 million (before depreciation) in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6). (More detailed information about capital assets can be found in Note 3A to the financial statements.) During the year, the County transferred ownership of land right-of-way to the City of Sauk Rapid for bridge construction. Total depreciation expense for the year was \$3,046,547.

**Table A-6
The County's Capital Assets**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Land	\$ 2,330,072	\$ 2,409,215	(3.3)%
Right-of-Way	7,895,594	7,895,594	-
Construction in Progress	2,554,241	4,432,298	(42.4)
Infrastructure	63,031,210	56,818,120	10.9
Buildings	18,597,574	15,544,717	19.6
Machinery, Furniture, and Equipment	6,613,039	5,755,394	14.9
Less: Accumulated Depreciation	<u>(39,335,867)</u>	<u>(36,488,556)</u>	<u>7.8</u>
Total	<u><u>\$ 61,685,863</u></u>	<u><u>\$ 56,366,782</u></u>	<u><u>9.4</u></u>

LONG-TERM LIABILITIES

At year-end, the County had \$16,879,343 in long-term liabilities outstanding.

- ◆ The County's total long-term debt decreased \$1,560,567, due primarily to making the payments on previously issued bonds, leases, and loans.

**Table A-7
The County's Long-Term Liabilities**

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
General Obligation Bonds and Notes	\$ 6,307,000	\$ 7,143,000	(11.7)%
Loans Payable	96,950	147,338	(34.2)
Revenue Bonds Payable	5,935,000	6,385,000	(7.0)
Economic Development Loans Payable	467,515	489,763	(4.5)
Capital Leases Payable	2,380,180	2,732,992	(12.9)
Compensated absences	<u>1,692,698</u>	<u>1,541,817</u>	<u>9.8</u>
Total	<u><u>\$ 16,879,343</u></u>	<u><u>\$ 18,439,910</u></u>	<u><u>(8.5)</u></u>

**BENTON COUNTY
FOLEY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

FACTORS BEARING ON THE COUNTY'S FUTURE

Benton County is projected by the Minnesota State Demographer to be the eighth fastest growing Minnesota county in percentage terms over the next decade. State estimates put Benton County's population at nearly 48,000 people by 2015, up from 38,000 in 2006. This growth will most likely translate into increased demand for services from virtually all areas of county government. The County will be challenged to utilize technology and other means to meet these service demands while keeping staffing growth to a minimum.

Maintaining County roads and bridges will continue to be a significant fiscal strain, as the County's infrastructure ages and wears, while resources remain limited. About one-half of the County's 450 mile road system does not qualify for state funding, placing this funding burden on property taxes or other local sources. Road bonding supported by a debt service levy could address a large backlog of projects. County debt is currently rated "A2" by Moody's Investor Service, which noted in its most recent bond rating the County's above average overall debt burden. Thus, while new debt for road projects may be possible, this option, too, has limits.

Strong residential property growth continues to be a feature of the County's tax base. Commercial development has lagged behind residential growth, leaving homeowners and agricultural landowners to fund much of the increased cost of County government. The County is keenly aware that Benton County's property tax rate is higher than many of its neighboring counties, particularly those with more established commercial development. While Benton County must meet the service demands of the citizens, it too recognized the impact of taxation on property owners. Tax levy growth will most likely reflect restraint, at least in the near term as the County's tax base gradually broadens.

A final influence on the County's financial future is the potential for state legislative action to restrict County levy authority through levy limits or levy freezes, or cut local aid. Levy limits were lifted in 2005, but have been discussed in each legislative session since. Levy limits have taken different forms in the past, so the difficulties imposed on the County would depend on how restrictive any new levy limits might be. Should the State of Minnesota again experience a significant budget deficit, it might turn to cuts in local aid to balance its budget, as the state last did in 2004. As a hedge against possible future cuts in local aid, Benton County has dedicated additional aid received since 2005 to funding capital outlay and other one-time needs, not counting increased aid towards its on-going operating budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Montgomery Headley, County Administrator at (320) 968-5004.

BASIC FINANCIAL STATEMENTS

**BENTON COUNTY
FOLEY, MINNESOTA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

		<u>Governmental Activities</u>
	Assets	
Cash and pooled investments		\$ 18,433,415
Petty cash and change funds		2,900
Taxes receivable		
Delinquent		400,480
Special assessments receivable		
Delinquent		7,825
Deferred		331,920
Accounts receivable		129,255
Accrued interest receivable		123,615
Loans receivable		801,029
Due from other governments		1,595,907
Inventories		210,368
Deferred debt issue costs		77,784
Non-depreciable capital assets		
Land		2,330,072
Right-of-way		7,895,594
Construction in progress		2,554,241
Depreciable capital assets		
Buildings (net)		14,286,336
Machinery, vehicles, furniture, and equipment (net)		3,764,486
Infrastructure (net)		30,855,134
Total Assets		\$ 83,800,361
	Liabilities	
Accounts payable		\$ 449,761
Salaries payable		254,549
Contracts payable		455,487
Due to other governments		429,807
Accrued interest payable		207,672
Compensated absences - due in less than one year		84,635
General obligation bonds and notes payable - due in less than one year		872,000
Loans payable - due in less than one year		51,668
Revenue bonds payable - due in less than one year		475,000
Economic development loans payable - due in less than one year		22,471
Capital leases payable - due in less than one year		370,257
Compensated absences - due in more than one year		1,608,063
General obligation bonds and notes payable - due in more than one year		5,435,000
Loans payable - due in more than one year		45,282
Revenue bonds payable - due in more than one year		5,460,000
Economic development loans payable - due in more than one year		445,044
Capital leases payable - due in more than one year		2,009,923
Total Liabilities		\$ 18,676,619
	Net Assets	
Invested in capital assets		
net of related debt		\$ 46,601,438
Restricted for		
Gravel pit		18,309
E911		236,106
Solid waste contingency		1,043,753
Economic development revolving loans		1,080,875
Other items		969,752
Unrestricted		15,173,509
Total Net Assets		\$ 65,123,742

**BENTON COUNTY
FOLEY, MINNESOTA**

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

<u>Functions/Programs</u>	Program Revenues			Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions		
Primary Government					
Governmental activities:					
General government	\$ 4,847,503	\$ 1,270,366	\$ 434,188	\$ -	\$ (3,142,949)
Public safety	6,428,193	1,181,223	456,104	-	(4,790,866)
Highways and streets	4,573,316	201,991	1,198,276	1,451,917	(1,721,132)
Human services	8,403,480	553,102	4,913,996	-	(2,936,382)
Health	779,159	52,517	462,652	-	(263,990)
Culture and recreation	480,633	68,750	66,717	-	(345,166)
Conservation of natural resources	611,281	18,272	85,238	338,906	(168,865)
Economic development	574,250	-	28,617	-	(545,633)
Interest	636,097	-	-	-	(636,097)
Total governmental activities	\$ 27,333,912	\$ 3,346,221	\$ 7,645,788	\$ 1,790,823	\$ (14,551,080)
General revenues:					
Property taxes					15,322,707
Gravel taxes					43,149
Mortgage registry and deed tax					52,008
Forfeited tax					31,707
Grants and contributions not restricted to specific programs					3,456,499
Unrestricted investment earnings					918,173
Miscellaneous					176,679
Total general revenues, transfers, and other items					\$ 20,000,922
Change in net assets					5,449,842
Net assets - beginning of year					59,673,900
Net assets - end of year					\$ 65,123,742

**BENTON COUNTY
FOLEY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge	Human Services	Miscellaneous	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and pooled investments	\$ 6,380,045	\$ 1,385,101	\$ 4,188,788	\$ 2,444,400	\$ 2,487,262	\$ 1,176,365	\$ 371,454	\$ 18,433,415
Petty cash and change funds	2,900	-	-	-	-	-	-	2,900
Taxes receivable								
Delinquent	214,625	42,793	81,643	-	58,363	3,056	-	400,480
Special assessments receivable								
Delinquent	-	-	-	7,818	-	-	7	7,825
Deferred	-	-	-	330,850	-	-	1,070	331,920
Accounts receivable	65,467	10,773	27,424	23,795	-	-	1,796	129,255
Accrued interest receivable	122,129	-	-	-	-	-	1,486	123,615
Due from other funds	20,623	5,991	-	-	-	-	-	26,614
Due from other governments	130,559	681,386	745,275	38,687	-	-	-	1,595,907
Inventories	-	210,368	-	-	-	-	-	210,368
Loans receivable	-	-	-	-	-	-	801,029	801,029
Advances to other funds	9,230	-	-	-	-	-	-	9,230
Total Assets	\$ 6,945,578	\$ 2,336,412	\$ 5,043,130	\$ 2,845,550	\$ 2,545,625	\$ 1,179,421	\$ 1,176,842	\$ 22,072,558
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 71,608	\$ 57,991	\$ 203,619	\$ 65,520	\$ -	\$ 51,023	\$ -	\$ 449,761
Salaries payable	147,033	26,147	81,369	-	-	-	-	254,549
Contracts payable	-	329,397	-	-	-	126,090	-	455,487
Due to other funds	5,958	247	20,376	33	-	-	-	26,614
Due to other governments	13,764	1,700	225,828	188,515	-	-	-	429,807
Deferred revenue-unavailable	235,053	464,491	104,106	341,871	58,363	3,056	1,077	1,208,017
Advances from other funds	-	-	-	-	-	-	9,230	9,230
Total Liabilities	\$ 473,416	\$ 879,973	\$ 635,298	\$ 595,939	\$ 58,363	\$ 180,169	\$ 10,307	\$ 2,833,465
Fund Balances								
Reserved for								
Encumbrances	\$ -	\$ 96,699	\$ -	\$ -	\$ -	\$ 130,954	\$ -	\$ 227,653
Inventories	-	210,368	-	-	-	-	-	210,368
Advances to other funds	9,230	-	-	-	-	-	-	9,230
Gravel pit closure	-	-	-	-	-	-	18,309	18,309
E-911	-	-	-	236,106	-	-	-	236,106
Solid waste contingency	-	-	-	1,043,753	-	-	-	1,043,753
Economic development revolving loans	-	-	-	-	-	-	1,080,875	1,080,875
Other Items	-	-	-	969,752	-	-	-	969,752
Unreserved								
Designated for cash flow purposes	4,847,199	1,149,372	2,027,603	-	-	-	-	8,024,174
Designated for debt service	-	-	-	-	2,487,262	-	-	2,487,262
Designated for future expenditures	-	-	-	-	-	868,298	-	868,298
Undesignated	1,615,733	-	2,380,229	-	-	-	67,351	4,063,313
Total Fund Balances	\$ 6,472,162	\$ 1,456,439	\$ 4,407,832	\$ 2,249,611	\$ 2,487,262	\$ 999,252	\$ 1,166,535	\$ 19,239,093
Total Liabilities and Fund Balances	\$ 6,945,578	\$ 2,336,412	\$ 5,043,130	\$ 2,845,550	\$ 2,545,625	\$ 1,179,421	\$ 1,176,842	\$ 22,072,558

**BENTON COUNTY
FOLEY, MINNESOTA**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances- total governmental funds	\$	19,239,093
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		61,685,863
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Delinquent taxes, delinquent and deferred special assessments, and certain state-aid highway allotments are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,208,017
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

General obligation bonds and notes	\$ 6,307,000	
Economic development loans	467,515	
Revenue bonds	5,935,000	
Capital leases	2,380,180	
Loans payable	96,950	
Deferred debt issue costs	(77,784)	
Compensated absences	1,692,698	
Accrued interest payable	207,672	(17,009,231)

Net assets of governmental activities	\$	<u>65,123,742</u>
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**BENTON COUNTY
FOLEY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006**

	General	Road and Bridge	Human Services	Miscellaneous	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 8,200,251	\$ 1,717,479	\$ 3,059,057	\$ -	\$ 2,167,575	\$ 155,588	\$ 79,169	\$ 15,379,119
Special assessments	661	-	-	327,918	-	-	2,631	331,210
Licenses and permits	126,201	12,155	-	18,610	-	-	-	156,966
Intergovernmental	1,894,841	4,287,661	5,768,063	581,000	198,556	569,165	4,303	13,303,589
Charges for services	1,896,357	98,873	560,725	200,262	-	-	-	2,756,217
Fines and forfeits	61,315	-	-	46,044	-	-	-	107,359
Gifts and contributions	8,575	-	-	12,500	-	-	-	21,075
Investment earnings	903,568	-	2,774	5,005	-	13,843	16,879	942,069
Miscellaneous	165,860	133,058	44,894	98,307	-	-	36,608	478,727
Total Revenues	\$ 13,257,629	\$ 6,249,226	\$ 9,435,513	\$ 1,289,646	\$ 2,366,131	\$ 738,596	\$ 139,590	\$ 33,476,331
Expenditures								
Current								
General government	\$ 4,512,920	\$ -	\$ -	\$ 128,808	\$ -	\$ -	\$ 51,035	\$ 4,692,763
Public safety	5,869,730	-	-	258,397	-	45,957	-	6,174,084
Highways and streets	-	8,893,850	-	-	-	154,264	-	9,048,114
Human services	-	-	8,273,077	-	-	-	-	8,273,077
Health	25,031	-	754,128	-	-	-	-	779,159
Culture and recreation	466,209	-	-	3,600	-	-	-	469,809
Conservation of natural resources	323,442	-	-	287,839	-	-	-	611,281
Economic development	542,150	-	-	-	-	-	32,100	574,250
Intergovernmental	-	107,263	-	-	-	-	-	107,263
Capital outlay	-	-	-	297,484	-	874,198	-	1,171,682
Debt service								
Principal retirement	7,704	88,683	-	-	1,592,813	-	22,248	1,711,448
Interest	-	10,257	-	-	640,628	-	4,898	655,783
Fiscal charges	-	-	-	-	4,524	-	-	4,524
Total Expenditures	\$ 11,747,186	\$ 9,100,053	\$ 9,027,205	\$ 976,128	\$ 2,237,965	\$ 1,074,419	\$ 110,281	\$ 34,273,237
Excess of Revenues Over (Under) Expenditures	\$ 1,510,443	\$ (2,850,827)	\$ 408,308	\$ 313,518	\$ 128,166	\$ (335,823)	\$ 29,309	\$ (796,906)
Other Financing Sources (Uses)								
Transfers in	\$ 3,017	\$ 701,000	\$ 3,335	\$ 15,143	\$ -	\$ 643,285	\$ -	\$ 1,365,780
Transfers out	(285,790)	(167,000)	-	(211,990)	-	(701,000)	-	(1,365,780)
Proceeds from sale of assets	-	18,929	-	15,696	-	-	-	34,625
Total Other Financing Sources (Uses)	\$ (282,773)	\$ 552,929	\$ 3,335	\$ (181,151)	\$ -	\$ (57,715)	\$ -	\$ 34,625
Net Change in Fund Balances	\$ 1,227,670	\$ (2,297,898)	\$ 411,643	\$ 132,367	\$ 128,166	\$ (393,538)	\$ 29,309	\$ (762,281)
Fund Balance - Beginning of Year	5,244,492	3,753,495	3,996,189	2,117,244	2,359,096	1,392,790	1,137,226	20,000,532
Increase (decrease) in reserved for inventories	-	842	-	-	-	-	-	842
Fund Balance - End of Year	\$ 6,472,162	\$ 1,456,439	\$ 4,407,832	\$ 2,249,611	\$ 2,487,262	\$ 999,252	\$ 1,166,535	\$ 19,239,093

**BENTON COUNTY
FOLEY, MINNESOTA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds \$ (762,281)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 8,516,080	
Net book value of capital assets disposed	(150,452)	
Current year depreciation	(3,046,547)	5,319,081

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (692,577)

Repayment of debt principal is an expenditure in the governmental funds. but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments:		
General obligation bonds and notes	\$ 836,000	
Economic development loans	22,248	
Revenue bonds	450,000	
Loans payable	50,388	
Capital lease	352,812	1,711,448

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.

Change in accrued interest payable	\$ 27,711	
Amortization of discounts and deferred issuance charges	(3,501)	
Change in compensated absences	(150,881)	
Change in inventories	842	(125,829)

Change in net assets of governmental activities \$ 5,449,842

BENTON COUNTY
FOLEY, MINNESOTA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,686,252</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,686,252</u>

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**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Benton County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Benton County was established October 27, 1849, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Benton County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Units

Blended component units are legally separate organizations that are so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Benton County has two blended component units.

<u>Component Units</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Regional Railroad Authority (RRA) provides for the preservation or improvement of rail transportation within the County.	County Commissioners are the members of the RRA Board.	Separate financial statements are not prepared.
Housing and Redevelopment Authority of Benton County (HRA)	County Commissioners are the members of the HRA Board.	Separate financial statements are not prepared.

Joint Ventures

The County participates in several joint ventures which are described in Note 8.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component units. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each major fund displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Miscellaneous Special Revenue Fund is used to account for a number of smaller activities that do not have their own fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payments of, principal, interest and related costs of the County's long-term bonds.

The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

Additionally, the County reports the following fund types:

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agency capacity. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Benton County considers all revenues to be available if they are collected within 90 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Investment earnings are allocated to the Miscellaneous Special Revenue Fund based on cash balances set aside for specific purposes within that fund. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$903,568.

Benton County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. No provision has been made for an estimated uncollectible amount.

Special assessments receivable consist of delinquent special assessments payable in the years 2001 through 2006, and deferred special assessments payable in 2007 and after. No provision has been made for an estimated uncollectible amount.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by reserved fund balance to indicate they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for all capital assets, except for buildings, which use a threshold of \$25,000. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets (Continued)

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Public domain infrastructure	25-35
Furniture, equipment, and vehicles	5-20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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 debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures over Budget

The following funds had expenditures in excess of budget at the departmental level for the year ended December 31, 2006:

Fund	Function	Actual	Final Budget	Excess
General Fund	Current			
	General government			
	Veterans service officer	\$ 76,236	\$ 76,193	\$ 43
	Public safety			
	Coroner	38,136	34,500	3,636
	Prisoner custodial	2,531,008	2,485,980	45,028
	Health			
	Groundwater management	25,031	17,473	7,558
Special Revenue Funds				
Road and Bridge	Current			
	Highways and streets			
	Construction	6,027,833	1,973,804	4,054,029
Human Services	Current			
	Human services			
	Income maintenance	2,679,548	2,454,627	224,921

The additional expenditures were financed by greater than anticipated grant revenues, greater than anticipated charges for services revenue, existing fund balance, and other additional revenues.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Reconciliation of Benton County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 18,433,415
Petty cash and change funds	2,900
Statement of fiduciary net assets	
Cash and pooled investments	1,686,252
Total Cash and Investments	<u>\$ 20,122,567</u>

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by a Federal Home Loan Bank; and certificates of deposit. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, Subd. 6;
- (2) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) Bankers' acceptances of United States banks;
- (5) Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal policy to manage its exposure to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a national recognized statistical rating organization. It is the County's policy to invest only in securities that meet the rating requirements set by state statute.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a formal policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County places no limit on the amount the County may invest in any one issuer.

The following table presents the County's investment balances at December 31, 2006, and information relating to potential investment risks:

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Rate Risk Maturity Date	
U.S. Government agency securities					
Federal National Mortgage Association Note	AAA	S&P		11/1/2007	\$ 885
Federal National Mortgage Association Note	AAA	S&P		6/18/2008	175,000
Total Federal National Mortgage Association Note			<5.0%		<u>175,885</u>
Federal Home Loan Bank Note	AAA	S&P		1/29/2007	500,156
Federal Home Loan Bank Note	AAA	S&P		10/16/2008	199,812
Federal Home Loan Bank Note	AAA	S&P		11/3/2008	99,906
Total Federal Home Loan Bank Note			6.1%		<u>799,874</u>
Government National Mortgage Association Note	AAA	S&P		5/20/2009	2,153
Government National Mortgage Association Note	AAA	S&P		10/15/2015	1,543
Government National Mortgage Association Note	AAA	S&P		4/15/2026	5,403
Total Government National Mortgage Association Note			<5.0%		<u>9,099</u>
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A		N/A	4,223,625
Franklin Customer Funds	N/R	N/A		N/A	238,200
Total investment pools/mutual funds					<u>4,461,825</u>
Total investments					5,446,683
Deposits					14,672,984
Petty cash					2,900
Total deposits and investments					<u><u>\$20,122,567</u></u>

N/A - Not Applicable

N/R - Not Rated

<5.0% - Concentration is less than 5% of investments

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,409,215	\$ 29,757	\$ (108,900)	\$ 2,330,072
Infrastructure, right-of-way	7,895,594	-	-	7,895,594
Construction in progress	4,432,298	7,341,504	(9,219,561)	2,554,241
Total capital assets, not being depreciated	<u>14,737,107</u>	<u>7,371,261</u>	<u>(9,328,461)</u>	<u>12,779,907</u>
Capital assets being depreciated:				
Buildings	15,544,717	3,052,857	-	18,597,574
Machinery, furniture, and equipment	5,755,394	1,098,433	(240,788)	6,613,039
Infrastructure	56,818,120	6,213,090	-	63,031,210
Total capital assets being depreciated	<u>78,118,231</u>	<u>10,364,380</u>	<u>(240,788)</u>	<u>88,241,823</u>
Less accumulated depreciation for:				
Buildings	3,921,855	389,383	-	4,311,238
Machinery, furniture, and equipment	2,640,719	407,070	(199,236)	2,848,553
Infrastructure	29,925,982	2,250,094	-	32,176,076
Total accumulated depreciation	<u>36,488,556</u>	<u>3,046,547</u>	<u>(199,236)</u>	<u>39,335,867</u>
Total capital assets, depreciated, net	<u>41,629,675</u>	<u>7,317,833</u>	<u>(41,552)</u>	<u>48,905,956</u>
Governmental Activities Capital Assets, Net	<u>\$ 56,366,782</u>	<u>\$ 14,689,094</u>	<u>\$ (9,370,013)</u>	<u>\$ 61,685,863</u>

In 1998, Benton County entered into a capital lease agreement totaling \$1,000,000 to fund highway projects. The estimated historical cost of these improvements is \$1,066,797 with related accumulated depreciation of \$341,375 as of December 31, 2006.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets (Continued)

In 2004, Benton County entered into a capital lease agreement for a courts facilities building totaling \$2,649,205. The historical cost of this facility is \$3,293,185 with related accumulated depreciation of \$592,773 as of December 31, 2006.

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

Governmental Activities		
General Government	\$	140,754
Public Safety		367,417
Highway and Streets		2,457,630
Human Services		69,922
Culture & Recreation		10,824
		<u>3,046,547</u>
	\$	<u>3,046,547</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Human Services Fund	\$ 20,376
	Road and Bridge Fund	247
Total Due to General Fund		<u>20,623</u>
Road and Bridge Fund	General Fund	5,958
	Miscellaneous Fund	33
Total Due to Road and Bridge Fund		<u>5,991</u>
		<u>\$ 26,614</u>

The due from other funds above relate to: (1) payment of various legal fees, phone services, and copier charges for the Human Services Fund; (2) payment of various phone charges and copier charges for the Road and Bridge Fund; (3) payment of various commissary, phone card and other fees for the General Fund; and (4) payment of a fuel charge for the Miscellaneous Fund.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

The General Fund has advanced a total of \$9,230 to the Ditch Special Revenue Fund over the past several years to fund needed ditch repairs. The advance will be paid off with future special assessments on the benefited properties.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Interfund Transfer	Amount	Description
Transfer to General Fund from Miscellaneous Fund	\$ 3,017	Provide Funds for excess drug & alcohol contingency
Transfer to Road and Bridge Fund from Capital Projects Fund	701,000	Provide Funds for bond payments and County Road 84 project
Transfer to Human Services Fund from General Fund	3,335	Provide funds for a health insurance adjustment
Transfer to Miscellaneous Fund from General Fund	15,143	Provide funds for major trial & sheriff contingency
Transfer to Capital Projects Fund from General Fund	267,312	Provide funds for master control pond
Road & Bridge Fund	167,000	Provide funds for heavy cold storage
Miscellaneous Fund	208,973	Provide Funds for public works shortage
	<u>643,285</u>	
Total	<u>\$ 1,365,780</u>	

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Deferred Revenues

Deferred revenues consists of taxes and special assessments receivable that are not collected soon enough after year-end to pay liabilities of the current year, and state and federal grants received but not yet earned. Deferred revenue at December 31, 2006, is summarized below by fund:

	Special Assessments	Taxes	Grants	Other	Total
Major Governmental Funds					
General	\$ -	\$ 214,625	\$ -	\$ 20,428	\$ 235,053
Road and Bridge	-	42,793	-	421,698	464,491
Human Services	-	81,643	22,463	-	104,106
Miscellaneous	338,668	-	-	3,203	341,871
Debt Service Fund	-	58,363	-	-	58,363
Capital Projects Fund	-	3,056	-	-	3,056
Total Major Governmental Funds	338,668	400,480	22,463	445,329	1,206,940
Other Governmental Funds	1,077	-	-	-	1,077
	<u>\$ 339,745</u>	<u>\$ 400,480</u>	<u>\$ 22,463</u>	<u>\$ 445,329</u>	<u>\$1,208,017</u>
Deferred Revenue					
Unavailable	<u>\$ 339,745</u>	<u>\$ 400,480</u>	<u>\$ 22,463</u>	<u>\$ 445,329</u>	<u>\$1,208,017</u>

2. Long-Term Debt

Governmental Activities

Types of Indebtedness	Maturity Date	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General Obligation Bonds					
2002 G.O. Capital Improvement Bonds	2018	\$155,000- 275,000	4.00-5.00	\$ 3,065,000	\$ 2,585,000
2003 G.O. Capital Improvement Bonds	2018	\$170,000- 325,000	2.00-3.85	35,000	2,950,000
Total General Obligation Bonds				<u>\$ 3,100,000</u>	<u>\$ 5,535,000</u>

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Long-Term Debt (Continued)

Governmental Activities (Continued)

Types of Indebtedness	Maturity Date	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General Obligation Capital Notes					
2002 G.O. Capital Notes	2007	\$365,000- \$400,000	2.70-3.75	\$ 1,530,000	\$ 400,000
2002 G.O. Capital Improvement Notes	2011	\$42,000- \$52,000	2.15	469,000	247,000
2003 G.O. Capital Notes	2008	\$60,000- \$65,000	1.20-2.65	305,000	125,000
Total general obligation capital notes				<u>\$ 2,304,000</u>	<u>\$ 772,000</u>
Revenue Bonds					
2001 Jail Lease Revenue Refunding Bonds	2016	\$450,000- \$730,000	4.00-4.70	<u>\$ 2,304,000</u>	<u>\$ 5,935,000</u>
Capital Leases					
2004 lease purchase with Norwest Investment Services, Inc., to finance a courts facilities building	2014	\$82,500- \$165,026	4.68	\$ 2,649,205	\$ 2,115,883
1998 lease purchase with Norwest Investment Services, Inc., to fund future highway projects	2008	\$44,134- \$68,674	5.27	1,000,000	264,297
Total capital leases				<u>\$ 3,649,205</u>	<u>\$ 2,380,180</u>
Loans					
Minnesota Department of Trade and Economic Development septic system replacement loans	2007	\$3,852	interest-free	\$ 76,725	\$ 7,704
City of Foley, County Road 43 Improvement Loan	2008	\$41,440- \$45,283	3.00	173,369	89,246
Total loans				<u>\$ 250,094</u>	<u>\$ 96,950</u>
Economic Development Loans					
U.S. Department of Agriculture	2025	\$27,146	1.00	<u>\$ 660,000</u>	<u>\$ 467,515</u>

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year December	General Obligation Bonds		Capital Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 365,000	\$ 211,146	\$ 507,000	\$ 15,223	\$ 475,000	\$ 248,419
2008	375,000	198,911	113,000	5,161	495,000	229,019
2009	395,000	185,436	49,000	3,268	525,000	208,291
2010	405,000	170,663	51,000	2,215	550,000	186,050
2011	425,000	154,990	52,000	1,118	570,000	162,668
2012-2016	2,405,000	506,485	-	-	3,320,000	397,162
2017-2018	1,165,000	51,612	-	-	-	-
Total	<u>\$5,535,000</u>	<u>\$1,479,243</u>	<u>\$ 772,000</u>	<u>\$ 26,985</u>	<u>\$5,935,000</u>	<u>\$1,431,609</u>

Year December	Capital Lease		Loans Payable		Economic Development	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 370,257	\$ 108,485	\$ 51,668	\$ 2,677	\$ 22,471	\$ 4,675
2008	388,566	90,176	45,282	1,358	22,696	4,450
2009	264,959	72,815	-	-	22,923	4,223
2010	277,504	60,270	-	-	23,152	3,994
2011	290,644	47,131	-	-	23,383	3,763
2012-2016	788,250	56,187	-	-	120,471	15,259
2017-2021	-	-	-	-	126,616	9,114
2022-2025	-	-	-	-	105,803	2,657
Total	<u>\$2,380,180</u>	<u>\$ 435,064</u>	<u>\$ 96,950</u>	<u>\$ 4,035</u>	<u>\$ 467,515</u>	<u>\$ 48,135</u>

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
General Obligation Bonds	\$ 5,875,000	\$ -	\$ 340,000	\$ 5,535,000	\$ 365,000
G.O. Capital Notes	1,268,000	-	496,000	772,000	507,000
Jail Lease Revenue Bonds	6,385,000	-	450,000	5,935,000	475,000
 Total Bonds Payable	 13,528,000	 -	 1,286,000	 12,242,000	 1,347,000
Capital Leases	2,732,992	-	352,812	2,380,180	370,257
Loans Payable	147,338	-	50,388	96,950	51,668
Economic Development Loans	489,763	-	22,248	467,515	22,471
Compensated Absences, Net	1,541,817	1,097,102	946,221	1,692,698	84,635
 Governmental Activity Long-Term Liabilities	 <u>\$18,439,910</u>	 <u>\$ 1,097,102</u>	 <u>\$ 2,657,669</u>	 <u>\$16,879,343</u>	 <u>\$ 1,876,031</u>

5. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following (amounts in thousands):

<u>Project Description</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Road Construction	\$ 7,474	\$ 97
Cold Storage Facility	14	131

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 FUND BALANCES

Miscellaneous Special Revenue Fund reserved fund balances are aggregated on the Governmental Funds Balance Sheet. Disaggregated fund balances as of December 31, 2006 were as follows:

Fund Balance Reservation		
Reserved for solid waste contingency	\$	1,043,753
Reserved for E-911		236,106
Reserved for other items:		
Law library		34,021
Election equipment		11,164
Contingency funds		33,663
Major trial expenditures		21,000
Recorders' equipment		152,246
Motor pool		12,730
911 address signs		114,424
SCORE		192,870
Natural resources block grant		75,506
Get broadband grant		13,479
Electronic home monitoring grant		13,161
Jail inmate capital expenditures		111,099
Park dedication fees		140,352
Other		44,037
Total reserved for other items		969,752
Total fund balance		
Miscellaneous Special Revenue Fund	\$	2,249,611

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of Benton County are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year.

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF, PEPFF, and PECF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members were required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. PECF members are required to contribute 5.83% of their annual covered salary. Benton County is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, 10.5% for PEPFF members, and 8.75% for PECF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007. The County's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$461,060, \$418,105, and \$408,183, respectively. The County's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$144,030, \$121,123, and \$116,605, respectively. The County's contributions to the PECF for the years ending December 31, 2006, 2005, and 2004 were \$123,832, \$113,008, and \$109,700, respectively.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Funding Policy (Continued)

The County's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 6 DEFINED CONTRIBUTION PLAN

One county commissioner of Benton County is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by Benton County during fiscal year 2006 were:

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2006	\$ 1,555	\$ 1,555	5.0%	5.0%	5.0%

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 7 RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Joint Ventures

Stearns-Benton Employment and Training Council

The Stearns-Benton Employment Training Council was created for the purpose of undertaking, implementing, and maintaining the programs established under the Job Training Partnership Act of 1982 and other federal and state laws and regulations governing the establishment and implementation of programs within the areas governed by Stearns and Benton Counties. The council is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. The Council is governed by an Elected Officials Board and Private Industry Council (PIC). The Elected Officials Board is composed of two commissioners each from Stearns and Benton Counties and one PIC Board member. The PIC is composed of 24 members from local business, industry, agriculture, labor organizations, public or private education, and community service groups. Included in the Elected Officials Board's duties and powers is the authority to approve the Council's budget and enter into any necessary contracts or leases.

Benton County pays a contractual amount through Human Services for their administrative costs, but the amounts contributed are considered immaterial.

Complete financial information can be obtained from:

Stearns-Benton Employment and Training Council
3333 West Division Street, Suite 210
St. Cloud, Minnesota 56301-3783

Tri-County Solid Waste Commission

The Tri-County Solid Waste Commission was established in July 1983 by a joint powers agreement among Benton, Sherburne, and Stearns Counties to conduct a solid waste management program on behalf of the participating counties. The commission is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission is governed by a board of directors. Each member county is entitled to no less than two and no more than four of its own county commissioners on the board. Population of the member counties determines how many of their commissioners sit on the Board. The board of directors currently comprises eight members: four county commissioners from Stearns County and two each from Benton and Sherburne Counties.

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

A. Joint Ventures (Continued)

Tri-County Solid Waste Commission (Continued)

Each county's proportionate share of the net operating costs is based on the usage of the household hazardous waste facility and the solid waste picked up in each county.

The Commission will remain in existence so long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the member counties in the ratio that the total contributions made by each of them bears to the sum total of contributions made by all.

Separate financial information can be obtained from:

Tri-County Solid Waste Commission
601 North 20th Avenue
St. Cloud, Minnesota 56303

B. Commitments

On September 19, 2006, the County was awarded \$250,000 in loan funds from USDA Rural Development. As of December 31, 2006, no funds had been received under this loan.

NOTE 9 SUBSEQUENT EVENTS

On May 2, 2007, the City issued \$3,000,000 of General Obligation Road Reconstruction Bonds (2007A) and \$2,055,000 of General Obligation State-Aid Road Bonds (2007B) for road construction. The 2007A bonds have an interest rate of 4.05% and will mature February 1, 2022. The 2007B bonds have an interest rate of 4.05% and will mature April 1, 2022.

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 8,227,952	\$ 8,227,952	\$ 8,200,251	\$ (27,701)
Special assessments	-	-	661	661
Licenses and permits	126,690	126,690	126,201	(489)
Intergovernmental	1,856,905	1,856,905	1,894,841	37,936
Charges for services	1,811,361	1,811,361	1,896,357	84,996
Fines and forfeits	25,150	25,150	61,315	36,165
Gifts and contributions	-	-	8,575	8,575
Investments earnings	200,000	200,000	903,568	703,568
Miscellaneous	51,750	51,750	165,860	114,110
Total Revenues	\$ 12,299,808	\$ 12,299,808	\$ 13,257,629	\$ 957,821
Expenditures				
Current				
General government				
Commissioners	\$ 438,069	\$ 397,810	\$ 254,319	\$ 143,491
Public defender	50,000	50,000	48,094	1,906
County administration	437,229	437,229	437,123	106
County auditor/treasurer	472,447	503,517	484,136	19,381
County assessor	388,223	388,223	339,571	48,652
Data processing	485,404	487,469	478,768	8,701
Attorney	736,895	741,422	732,725	8,697
Recorder	187,004	191,845	171,984	19,861
Buildings and plant	802,308	816,204	746,109	70,095
Veterans service officer	76,193	76,193	76,236	(43)
Other general government	912,147	879,830	743,855	135,975
Total general government	\$ 4,985,919	\$ 4,969,742	\$ 4,512,920	\$ 456,822
Public safety				
Sheriff	\$ 2,932,869	\$ 3,018,776	\$ 2,968,416	\$ 50,360
Coroner	34,500	34,500	38,136	(3,636)
Civil defense	75,476	58,503	35,337	23,166
Prisoner custodial	2,523,068	2,485,980	2,531,008	(45,028)
Probation and parole	490,508	491,122	296,833	194,289
Total public safety	\$ 6,056,421	\$ 6,088,881	\$ 5,869,730	\$ 219,151
Health				
Groundwater management	\$ 17,473	\$ 17,473	\$ 25,031	\$ (7,558)

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 12,700	\$ 12,700	\$ 12,700	\$ -
Regional library	453,509	453,509	453,509	-
Total culture and recreation	\$ 466,209	\$ 466,209	\$ 466,209	\$ -
Conservation of natural resources				
Cooperative extension	\$ 185,598	\$ 185,598	\$ 176,367	\$ 9,231
Soil and water conservation	132,075	132,075	132,075	-
Agricultural society/county fair	15,000	15,000	15,000	-
Total conservation of natural resources	\$ 332,673	\$ 332,673	\$ 323,442	\$ 9,231
Economic development				
Solid waste	\$ 541,637	\$ 555,102	\$ 542,150	\$ 12,952
Debt service				
Principal retirement	\$ 7,704	\$ 7,704	\$ 7,704	\$ -
Total Expenditures	\$ 12,408,036	\$ 12,437,784	\$ 11,747,186	\$ 690,598
Excess of Revenues Over (Under) Expenditures	\$ (108,228)	\$ (137,976)	\$ 1,510,443	\$ 1,648,419
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 3,017	\$ 3,017
Transfers out	-	(267,312)	(285,790)	(18,478)
Total Other Financing Sources (Uses)	\$ -	\$ (267,312)	\$ (282,773)	\$ (15,461)
Net Change in Fund Balance	\$ (108,228)	\$ (405,288)	\$ 1,227,670	\$ 1,632,958
Fund Balance - Beginning of Year	5,244,492	5,244,492	5,244,492	-
Fund Balance - End of Year	\$ 5,136,264	\$ 4,839,204	\$ 6,472,162	\$ 1,632,958

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,703,055	\$ 1,703,055	\$ 1,717,479	\$ 14,424
Licenses and permits	6,500	6,500	12,155	5,655
Intergovernmental	2,979,724	2,979,724	4,287,661	1,307,937
Charges for services	71,900	71,900	98,873	26,973
Miscellaneous	15,500	15,500	133,058	117,558
Total Revenues	\$ 4,776,679	\$ 4,776,679	\$ 6,249,226	\$ 1,472,547
Expenditures				
Current				
Highways and streets				
Administration	\$ 326,494	\$ 326,494	\$ 307,153	\$ 19,341
Maintenance	1,875,164	1,875,164	1,661,243	213,921
Construction	1,973,804	1,973,804	6,027,833	(4,054,029)
Equipment maintenance and shop	840,276	976,007	897,621	78,386
Total highways and streets	\$ 5,015,738	\$ 5,151,469	\$ 8,893,850	\$ (3,742,381)
Intergovernmental	\$ 115,000	\$ 115,000	\$ 107,263	\$ 7,737
Debt service				
Principal retirement	\$ 88,683	\$ 88,683	\$ 88,683	\$ -
Interest	\$ 10,258	\$ 10,258	\$ 10,257	\$ 1
Total Expenditures	\$ 5,229,679	\$ 5,365,410	\$ 9,100,053	\$ (3,734,643)
Excess of Revenues Over (Under) Expenditures	\$ (453,000)	\$ (588,731)	\$ (2,850,827)	\$ (2,262,096)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 286,000	\$ 701,000	\$ 415,000
Transfers out	-	167,000	(167,000)	(334,000)
Proceeds from sale of assets	-	-	18,929	18,929
Total Other Financing Sources (Uses)	\$ -	\$ 453,000	\$ 552,929	\$ 99,929
Net Change in Fund Balance	\$ (453,000)	\$ (135,731)	\$ (2,297,898)	\$ (2,162,167)
Fund Balance - Beginning of Year	3,753,495	3,753,495	3,753,495	-
Increase (decrease) in reserved for inventory	-	-	842	842
Fund Balance - End of Year	\$ 3,300,495	\$ 3,617,764	\$ 1,456,439	\$ (2,161,325)

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,076,189	\$ 3,076,189	\$ 3,059,057	\$ (17,132)
Intergovernmental	6,081,758	6,081,758	5,768,063	(313,695)
Charges for services	281,908	281,908	560,725	278,817
Interest on investments	300	300	2,774	2,474
Miscellaneous	103,300	103,300	44,894	(58,406)
Total Revenues	\$ 9,543,455	\$ 9,543,455	\$ 9,435,513	\$ (107,942)
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,454,627	\$ 2,454,627	\$ 2,679,548	\$ (224,921)
Social services	6,329,527	6,332,862	5,593,529	739,333
Total human services	\$ 8,784,154	\$ 8,787,489	\$ 8,273,077	\$ 514,412
Health				
Nursing service	759,301	759,301	754,128	5,173
Total Expenditures	\$ 9,543,455	\$ 9,546,790	\$ 9,027,205	\$ 519,585
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (3,335)	\$ 408,308	\$ 411,643
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 3,335	\$ 3,335	\$ -
Net Change in Fund Balance	\$ -	\$ -	\$ 411,643	\$ 411,643
Fund Balance - Beginning of Year	3,996,189	3,996,189	3,996,189	-
Fund Balance - End of Year	\$ 3,996,189	\$ 3,996,189	\$ 4,407,832	\$ 411,643

**BENTON COUNTY
FOLEY, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006**

BUDGETARY INFORMATION

The County Board adopts annual budgets for the General Fund and certain special revenue funds (Road and Bridge, Human Services, Economic Development, and Regional Railroad Authority). These budgets are prepared on the modified accrual basis of accounting. Annual budgets are not adopted for the Miscellaneous, Ditch, and Gravel Pit Restoration Special Revenue Funds, the Debt Service Fund, and the Capital Projects Fund.

Based on a process established by the County Board, all departments for the County submit requests for appropriations to the County Administrator each year. After review, analysis and discussions with the departments, the County Administrator's proposed budget is presented to the County Board for review. The County Board holds public hearings and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control—the level at which expenditures may no legally exceed appropriations – is the department level. Budgets may be amended during the year with proper approval.

The following major funds had expenditures in excess of budget at the department level for the year ended December 31, 2006:

Fund	Function	Actual	Final Budget	Excess
General Fund	Current			
	General government			
	Veterans service officer	\$ 76,236	\$ 76,193	\$ 43
	Public safety			
	Coroner	38,136	34,500	3,636
	Prisoner custodial	2,531,008	2,485,980	45,028
	Health			
	Groundwater management	25,031	17,473	7,558
Special Revenue Funds				
Road and Bridge	Current			
	Highways and streets			
	Construction	6,027,833	1,973,804	4,054,029
Human Services	Current			
	Human services			
	Income maintenance	2,679,548	2,454,627	224,921

The additional expenditures were financed by greater than anticipated grant revenues, greater than anticipated charges for services, existing fund balance, and other additional revenues.

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SUPPLEMENTARY INFORMATION

BENTON COUNTY
FOLEY, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Economic Development Special Revenue Fund is used to account for the activities of the Economic Development revolving loan program.

The Regional Railroad Authority Special Revenue Fund is used to account for the activities of the Regional Railroad Authority Transit Program.

The Gravel Pit Restoration Special Revenue Fund is used to account for the 10 percent of aggregate production taxes collected and retained by the County to restore abandoned pits on public or tax-forfeited land.

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	Special Revenue Funds				Total
	Ditch	Economic Development	Regional Railroad Authority	Gravel Pit Restoration	
<u>Assets</u>					
Cash and pooled investments	\$ 76,415	\$ 278,360	\$ 166	\$ 16,513	\$ 371,454
Special assessments receivable					
Delinquent	7	-	-	-	7
Deferred	1,070	-	-	-	1,070
Accounts receivable	-	-	-	1,796	1,796
Accrued interest receivable	-	1,486	-	-	1,486
Loans receivable	-	801,029	-	-	801,029
Total Assets	\$ 77,492	\$ 1,080,875	\$ 166	\$ 18,309	\$ 1,176,842
<u>Liabilities and Fund Balances</u>					
Liabilities					
Deferred revenue-unavailable	\$ 1,077	\$ -	\$ -	\$ -	\$ 1,077
Advance from other funds	9,230	-	-	-	9,230
Total Liabilities	\$ 10,307	\$ -	\$ -	\$ -	\$ 10,307
Fund Balances					
Reserved for gravel pit closure	\$ -	\$ -	\$ -	\$ 18,309	\$ 18,309
Reserved for economic development revolving loans	-	1,080,875	-	-	1,080,875
Unreserved					
Undesignated	67,185	-	166	-	67,351
Total Fund Balances	\$ 67,185	\$ 1,080,875	\$ 166	\$ 18,309	\$ 1,166,535
Total Liabilities and Fund Balances	\$ 77,492	\$ 1,080,875	\$ 166	\$ 18,309	\$ 1,176,842

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Special Revenue Funds				Total
	Ditch	Economic Development	Regional Railroad Authority	Gravel Pit Restoration	
Revenues					
Taxes	\$ -	\$ 31,707	\$ 46,019	\$ 1,443	\$ 79,169
Special assessments	2,631	-	-	-	2,631
Intergovernmental	-	-	4,303	-	4,303
Investment earnings	-	16,879	-	-	16,879
Miscellaneous	-	31,452	-	5,156	36,608
Total Revenues	\$ 2,631	\$ 80,038	\$ 50,322	\$ 6,599	\$ 139,590
Expenditures					
Current					
General government	\$ -	\$ -	\$ 51,035	\$ -	\$ 51,035
Economic development	-	32,100	-	-	32,100
Debt service					
Principal retirement	-	22,248	-	-	22,248
Interest	-	4,898	-	-	4,898
Total Expenditures	\$ -	\$ 59,246	\$ 51,035	\$ -	\$ 110,281
Net Change in Fund Balance	\$ 2,631	\$ 20,792	\$ (713)	\$ 6,599	\$ 29,309
Fund Balance - Beginning of Year	64,554	1,060,083	879	11,710	1,137,226
Fund Balance - End of Year	\$ 67,185	\$ 1,080,875	\$ 166	\$ 18,309	\$ 1,166,535

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 40,000	\$ 40,000	\$ 31,707	\$ (8,293)
Investment earnings	5,000	5,000	16,879	11,879
Miscellaneous	349,462	349,462	31,452	(318,010)
Total Revenues	\$ 394,462	\$ 394,462	\$ 80,038	\$ (314,424)
Expenditures				
Current				
Economic development				
Administration	\$ 234,608	\$ 234,608	\$ 32,100	\$ 202,508
Debt service				
Principal retirement	22,248	22,248	22,248	-
Interest	4,898	4,898	4,898	-
Total Expenditures	\$ 261,754	\$ 261,754	\$ 59,246	\$ 202,508
Excess of Revenues Over (Under) Expenditures	\$ 132,708	\$ 132,708	\$ 20,792	\$ (111,916)
Fund Balance - Beginning of Year	1,060,083	1,060,083	1,060,083	-
Fund Balance - End of Year	\$ 1,192,791	\$ 1,192,791	\$ 1,080,875	\$ (111,916)

**BENTON COUNTY
FOLEY, MINNESOTA**

**BUDGETARY COMPARISON SCHEDULE
REGIONAL RAILROAD AUTHORITY SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 51,035	\$ 51,035	\$ 46,019	\$ (5,016)
Intergovernmental	-	-	4,303	4,303
Total Revenues	\$ 51,035	\$ 51,035	\$ 50,322	\$ (713)
Expenditures				
Current				
General government				
Other general government	51,035	51,035	51,035	-
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (713)	\$ (713)
Fund Balance - Beginning of Year	879	879	879	-
Fund Balance - End of Year	\$ 879	\$ 879	\$ 166	\$ (713)

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HOUSING AND REDEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,905,035	\$ 1,905,035	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,905,035	\$ 1,905,035	\$ -
<u>METROPOLITAN TRANSIT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 131,627	\$ 131,627	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 131,627	\$ 131,627	\$ -
<u>MUNICIPAL DEVELOPMENT DISTRICT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 83,188	\$ 83,188	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 83,188	\$ 83,188	\$ -
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 31,235	\$ 8,597,664	\$ 8,600,027	\$ 28,872
<u>Liabilities</u>				
Due to other governments	\$ 31,235	\$ 8,597,664	\$ 8,600,027	\$ 28,872

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CENTRAL MINNESOTA TRAINING ASSOCIATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,472	\$ 12,094	\$ 36,566	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 24,472	\$ 12,094	\$ 36,566	\$ -
<u>STATE FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137,146	\$ 5,047,600	\$ 5,082,351	\$ 102,395
<u>Liabilities</u>				
Due to other governments	\$ 137,146	\$ 5,047,600	\$ 5,082,351	\$ 102,395
<u>CMH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 514,973	\$ 179,528	\$ 327,482	\$ 367,019
<u>Liabilities</u>				
Due to other governments	\$ 514,973	\$ 179,528	\$ 327,482	\$ 367,019
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 565,761	\$ 38,365,049	\$ 38,242,645	\$ 688,165
<u>Liabilities</u>				
Due to other governments	\$ 565,761	\$ 38,365,049	\$ 38,242,645	\$ 688,165

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 530	\$ 7,649,890	\$ 7,650,203	\$ 217
<u>Liabilities</u>				
Due to other governments	\$ 530	\$ 7,649,890	\$ 7,650,203	\$ 217
 <u>MENTAL HEALTH INITIATIVE COMMUNITY PROJECT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 144,118	\$ 847,507	\$ 580,380	\$ 411,245
<u>Liabilities</u>				
Due to other governments	\$ 144,118	\$ 847,507	\$ 580,380	\$ 411,245
 <u>EASTSIDE BOOSTERS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 5,000	\$ 5,000	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 5,000	\$ 5,000	\$ -
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 601,224	\$ 569,614	\$ 31,610
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 601,224	\$ 569,614	\$ 31,610

**BENTON COUNTY
FOLEY, MINNESOTA**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>JAIL INMATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 652,709	\$ 595,980	\$ 56,729
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 652,709	\$ 595,980	\$ 56,729
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,418,235	\$ 64,078,115	\$ 63,810,098	\$ 1,686,252
<u>Liabilities</u>				
Due to other governments	\$ 1,418,235	\$ 64,078,115	\$ 63,810,098	\$ 1,686,252

**BENTON COUNTY
FOLEY, MINNESOTA**

TAX CAPACITY, TAX CAPACITY RATES, LEVIES, AND PERCENTAGE OF COLLECTION

	2005		2006		2007	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real Estate	\$ 22,689,843		\$ 25,099,305		\$ 27,808,223	
Personal Property	542,779		605,276		622,146	
Less:						
Tax Increment	(1,387,985)		(1,346,170)		(1,111,309)	
Power Line	(4,119)		(4,106)		(4,873)	
Job Z					(76,258)	
Net Tax Capacity	\$ 21,840,518		\$ 24,354,305		\$ 27,237,929	
Taxes Levied for County Purposes						
General (including Library)	\$ 8,602,252	33.003	\$ 9,431,274	36.049	\$ 9,842,223	33.780
Road and Bridge	1,749,660	4.627	2,297,661	7.601	3,115,979	9.609
Human Services	3,210,216	13.443	3,462,861	13.713	3,765,504	13.381
Debt Service	2,343,852	10.732	2,361,501	9.696	2,278,638	8.547
Capital Projects	-	-	728,900	0.719	783,500	0.642
Total Levy for County Purposes	\$ 15,905,980	61.805	\$ 18,282,197	67.778	\$ 19,785,844	65.959
Less: County Program Aid	1,203,590		1,775,324		1,817,148	
Net Levy Certified to State	\$ 14,702,390		\$ 16,506,873		\$ 17,968,696	
Less: Market Value Credits Payable by State	1,331,599		1,365,627		1,327,641	
Net Levy for County Purposes	\$ 13,370,791		\$ 15,141,246		\$ 16,641,055	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 41,348		\$ 42,238		\$ 44,690	
Assessed at 5%	3,728		3,822		4,048	
Total Tax Capacity - Light and Power	\$ 45,076		\$ 46,060		\$ 48,738	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. 273.42)						
Assessed at 43%	\$ 54,956	132.911	\$ 55,470	131.327	\$ 59,141	130.150
Assessed at 5%	4,955	132.911	5,019	131.327	5,357	130.150
Total Light and Power Tax Levies	\$ 59,911		\$ 60,489		\$ 64,498	
Special Assessments						
Ditch Liens and Assessments	\$ 1,667		\$ 1,592		\$ 1,070	
Glendorado Septic Systems	308		289		-	
Solid Waste	320,441		321,690		330,850	
Total Special Assessments	\$ 322,416		\$ 323,571		\$ 331,920	
Percentage of Tax Collections for All Purposes	98.5%		98.2%		N/A	

**BENTON COUNTY
FOLEY, MINNESOTA**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2006**

	General Fund	Special Revenue Funds				Regional Railroad Authority	Total	Debt Service	Total All Funds
		Road and Bridge	Human Services	Miscellaneous	Capital Projects				
Shared Revenue									
State									
County program aid	\$ 651,737	\$ 446,593	\$ 123,094	\$ -	\$ 553,900	\$ -	\$ 1,123,587	\$ -	\$ 1,775,324
PERA rate reimbursement	19,781	5,043	13,080	-	-	-	18,123	-	37,904
Disparity reduction aid	7,452	-	-	-	-	-	-	-	7,452
Police aid	121,215	-	-	-	-	-	-	-	121,215
Highway users tax	-	3,457,043	-	-	-	-	3,457,043	-	3,457,043
Market value credit	738,685	165,513	280,478	-	15,265	4,303	465,559	198,556	1,402,800
Enhanced 911	-	-	-	115,716	-	-	115,716	-	115,716
Total Shared Revenue	\$ 1,538,870	\$ 4,074,192	\$ 416,652	\$ 115,716	\$ 569,165	\$ 4,303	\$ 5,180,028	\$ 198,556	\$ 6,917,454
Reimbursement for Services									
State									
Minnesota Department of Human Services	\$ 107,074	\$ -	\$ 2,091,514	\$ -	\$ -	\$ -	\$ 2,091,514	\$ -	\$ 2,198,588
Health	-	-	10,427	-	-	-	10,427	-	10,427
Employment and Economic Development	-	-	-	15,000	-	-	15,000	-	15,000
Total Reimbursement for Services	\$ 107,074	\$ -	\$ 2,101,941	\$ 15,000	\$ -	\$ -	\$ 2,116,941	\$ -	\$ 2,224,015
Payments									
Local									
Local contributions	\$ 19,550	\$ 213,469	\$ -	\$ -	\$ -	\$ -	\$ 213,469	\$ -	\$ 233,019
Total Payments	\$ 19,550	\$ 213,469	\$ -	\$ -	\$ -	\$ -	\$ 213,469	\$ -	\$ 233,019
Grants									
State									
Minnesota Department/Board of Corrections	\$ 114,694	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,694
Public Safety	34,653	-	-	14,961	-	-	14,961	-	49,614
Health	-	-	205,573	-	-	-	205,573	-	205,573
Natural Resources	5,331	-	-	-	-	-	-	-	5,331
Human Services	-	-	1,536,310	-	-	-	1,536,310	-	1,536,310
Soil and Water Resources	17,473	-	-	41,244	-	-	41,244	-	58,717
Environmental Assistance	-	-	-	85,238	-	-	85,238	-	85,238
Peace Officer's Board	8,320	-	-	-	-	-	-	-	8,320
Total State	\$ 183,744	\$ -	\$ 1,741,883	\$ 141,443	\$ -	\$ -	\$ 1,883,326	\$ -	\$ 2,067,070
Federal									
Department of Agriculture	\$ -	\$ -	\$ 146,497	\$ -	\$ -	\$ -	\$ 146,497	\$ -	\$ 146,497
Election Assistance Commission	-	-	-	308,841	-	-	308,841	-	308,841
Justice	23,413	-	-	-	-	-	-	-	23,413
Transportation	7,719	-	-	-	-	-	-	-	7,719
Education	-	-	963	-	-	-	963	-	963
Health and Human Services	-	-	1,360,127	-	-	-	1,360,127	-	1,360,127
Homeland Security	14,471	-	-	-	-	-	-	-	14,471
Total Federal	\$ 45,603	\$ -	\$ 1,507,587	\$ 308,841	\$ -	\$ -	\$ 1,816,428	\$ -	\$ 1,862,031
Total State and Federal	\$ 229,347	\$ -	\$ 3,249,470	\$ 450,284	\$ -	\$ -	\$ 3,699,754	\$ -	\$ 3,929,101
Total Intergovernmental	\$ 1,894,841	\$ 4,287,661	\$ 5,768,062	\$ 581,000	\$ 569,165	\$ 4,303	\$ 11,210,192	\$ 198,556	\$ 13,303,589

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS* AND
SINGLE AUDIT (A-133)**

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

Board of County Commissioners
Benton County
Foley, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Benton County, Minnesota as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 3, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Benton County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Benton County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider deficiencies 96-4, 06-1, 06-2, 06-3, and 06-4 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

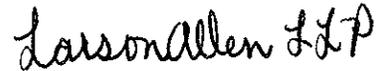
Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiencies described in the accompanying schedule of findings and questioned costs as items 96-4, 06-1, 06-2, 06-3, and 06-4 to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of County Commissioners, and state and federal grantor agencies; and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
August 3, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners
Benton County
Foley, Minnesota

Compliance

We have audited the compliance of Benton County, Minnesota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program, will not be prevented or detected.

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

This report is intended solely for the information and use of the Board of County Commissioners, management, and state and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
August 3, 2007

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2006**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Benton County, Minnesota.
2. Deficiencies in internal control were disclosed during the audit of the basic financial statements for the County and are reported in the "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*". Control deficiencies 96-4, 06-1, 06-2, 06-3, and 06-4 are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance with OMB Circular A-133".
5. The auditors' report on compliance for the major federal award programs for Benton County expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the County were disclosed during the audit that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

Help America Vote Act	CFDA No. 90.401
Temporary Assistance for Needy Families	CFDA No. 93.558
Child Care and Development Block Grant	CFDA No. 93.575
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County was determined to be a low-risk auditee.

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006**

MATERIAL WEAKNESSES - FINANCIAL REPORTING:

96-4 DEPARTMENTAL INTERNAL ACCOUNTING-SEGREGATION OF DUTIES

Criteria: County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control, is not in place for various County departments.

Cause: The County has a limited number of personnel within several County departments.

Effect: The design of the internal controls over financial reporting could affect the ability of the County to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the County's inability to prevent/detect misappropriation of County assets.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend County management implement some oversight procedures to ensure the internal control policies and procedures are being implemented by County staff.

06-1 FINANCIAL REPORTING PROCESS

Criteria: County management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

Condition: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause: Benton County has a limited number of personnel.

Effect: The design of the controls over the financial reporting process would affect the ability of County to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that County management be aware of the responsibilities regarding financial reporting. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006**

MATERIAL WEAKNESSES - FINANCIAL REPORTING (Continued):

06-2 AUDIT ADJUSTMENTS

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all County's accounting transactions, including account coding and reporting of accruals and net assets.

Condition: As part of the audit we proposed material audit adjustments for capital assets, receivables and payables, reclassifications to the proper accounts, and note disclosure preparation.

Cause: Benton County has a limited number of personnel.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the County to provide accurate accrual basis financial information.

Recommendation: We recommend County management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

06-3 TIMELY DEPOSITS

Criteria: Internal control frameworks recommend that collections be deposited on a daily basis to improve internal controls over cash.

Condition: County Corrections, Development, Highway, and Property Management Departments deposits cash with the treasurer on a weekly or monthly basis.

Cause: Past practice.

Effect: The risk of fraud and theft of collections is increased due to the increased time elapsed between deposits.

Recommendation: We recommend deposits be made on a daily basis in order to minimize the risk of fraud and theft.

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006**

MATERIAL WEAKNESSES - FINANCIAL REPORTING (Continued):

06-4 SUPPORTING DOCUMENTATION FOR DISBURSEMENTS

Criteria: Internal control frameworks recommend that supporting documentation for disbursements be maintained with payment vouchers.

Condition: The County was not able to provide supporting documentation for 2 of 40 disbursements tested.

Cause: Unknown.

Effect: The risk of fraud and errors in account coding is increased if disbursements are not properly authorized.

Recommendation: We recommend that all disbursements have supporting documentation attached to the claim form, regardless of the amount of the disbursement.

CONTROL DEFICIENCIES:

06-5 EXTENSION DEPARTMENT CHECKING ACCOUNT

Criteria: Standard internal control procedures recommend that bank accounts be closed when no longer necessary for operations.

Condition: The Extension Department has a checking account that has not been used for several years. However, the department has not taken the necessary steps to close the account.

Cause: Past practice.

Effect: County management may not be aware of activity occurring within the checking account.

Recommendation: We recommend County management be aware of the outstanding checking account and encourage the Extension Department to take the necessary steps to close the account.

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006**

OTHER ITEMS FOR CONSIDERATION – LEGAL COMPLIANCE:

06-6 COMPUTER ACCESS

Criteria: Standard internal control procedures recommend that access to computers with sensitive information, including the general ledger, should be limited to authorized personnel.

Condition: During the course of the audit, we noted that personnel throughout the County do not lock their computers when they leave their workstations.

Cause: Past practice.

Effect: Unauthorized personnel may obtain access to sensitive information and use this access fraudulently.

Recommendation: We recommend IT staff place automatic password protected screensavers on computers with sensitive information and access to the accounting systems. The wait time should be reasonable for the nature of employees' work and should be changeable only by IT.

06-7 APPROVAL OF COUNTY ACCOUNTS

Criteria: *Minnesota Statutes* require that all County change funds, petty cash funds, checking accounts, and credit cards be approved by the County Board.

Condition: During the course of the audit, the County was unable to provide dates when change funds, bank accounts, and credit cards were approved by the Board. The Sherriff's Department was unable to provide dates when a BP gas station credit card was approved. Property Management was unable to provide dates when the Park change fund was approved; \$100 was stolen from this change fund in 2006. Health and Human Services was unable to provide dates when its checking account was approved by the Board.

Cause: Past practice.

Effect: The County is not in compliance with *Minnesota Statutes*.

Recommendation: We recommend County management and the departments prepare a list of change funds, petty cash funds, checking accounts, and credit cards be and evaluate the necessity of each account. The list should then be presented before the Board for approval.

**BENTON COUNTY
FOLEY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2006**

OTHER ITEMS FOR CONSIDERATION – LEGAL COMPLIANCE (Continued):

06-8 PUBLISHING OF VENDORS

Criteria: *Minnesota Statutes* § 375.17 requires the County disclose actual vendors providing goods and services to the public and not just the credit card company.

Condition: Currently, when the County publishes disbursements, it discloses the name of the credit card company and not the actual vendors.

Cause: Past practice.

Effect: The County is not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the County maintain a schedule of actual vendors and payment amounts when paying credit cards and that the County disclose the actual vendor payments when publishing disbursements.

06-9 EMPLOYEE CLUB VENDING MACHINES

Criteria: Per the Minnesota Office of the State Auditor, in opinions related to the public purpose doctrine, in order for an employee club to operate vending machines on County property, the County must execute a contract with the club that would compensate the County for the space used and define the liability to both parties in regard to the machines and insurance.

Condition: An employee club operates vending machines in County buildings. Proceeds from these vending machines are used to fund various employee events. The County does not charge the employee club to operate these vending machines on County property.

Cause: Past practice.

Effect: The County is not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the County execute a contract with the employee club, defining County liabilities, establishing a reasonable rent for use of County space, and prohibiting the use of County time for any vending machine tasks.

**BENTON COUNTY
FOLEY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 136,802
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	9,695
Total U.S. Department of Agriculture		\$ 146,497
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance Grant	16.575	21,163
Bulletproof Vest Partnership Program	16.607	2,250
Total U.S. Department of Justice		\$ 23,413
U.S. Department of Transportation		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	20.005	\$ 1,540
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	6,179
Total U.S. Department of Transportation		\$ 7,719
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education Grant for Infants	84.181	\$ 963
U.S. Election Assistance Commission		
Passed Through Minnesota Office of the Secretary of State Help America Vote Act	90.401	\$ 308,841

**BENTON COUNTY
FOLEY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 120
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	59,246
Community Mental Health Block Grant	93.958	10,278
Maternal and Child Health Services Block Grant	93.994	38,651
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	14,327
Temporary Assistance for Needy Families	93.558	363,879
Grants to States for Access and Visitation Programs	93.597	542
Child Care Development Block Grant	93.575	573,250
Foster Care Title IV-E	93.658	83,367
Social Services Block Grant Title XX	93.667	208,507
Chafee Foster Care Independence Program	93.674	7,327
State Children's Insurance Program	93.767	633
Total U.S. Department of Health and Human Services		\$ 1,360,127
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	\$ 14,471
Total Cash Awards		\$ 1,862,031

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Benton County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Benton County
Foley, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton County, Minnesota, as of and for the year ended December 31, 2006, and have issued our report thereon dated August 3, 2007.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Local Government*, promulgated by the State Auditor pursuant to *Minnesota Statute* § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing districts, and county and city miscellaneous provisions. Our study included all of the listed categories, except tax increment financing districts, because the County does not have any tax increment financing districts.

The results of our tests indicate that for the items tested, the County complied with the material terms and conditions of applicable legal provisions, except for the items described in detail in the preceding schedule of findings and questioned costs.

This report is intended solely for the information and use of management, County Board, and the Office of the State Auditor of Minnesota and is not intended to be and should not be used by anyone other than those specified parties.



LarsonAllen LLP

Brainerd, Minnesota
August 3, 2007