

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT FOR

**DAKOTA COUNTY**  
**HASTINGS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

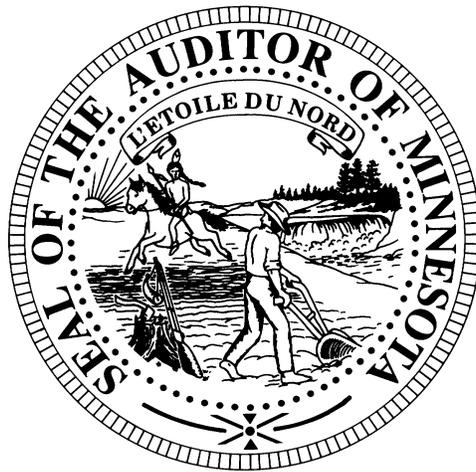
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**For the Year Ended December 31, 2005**



**Management and Compliance Report**

**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

*Schedule 1*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the financial statements of Dakota County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Dakota County and is 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*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Dakota County were disclosed during the audit.
- D. 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 in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Dakota County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Supplemental Food Program (WIC)	CFDA #10.557
Community Development Block Grant	CFDA #14.218
HOME Investments Partnerships Program	CFDA #14.239
Temporary Assistance For Needy Families (TANF)	CFDA #93.558
Social Services Block Grant - Title XX	CFDA #93.667
Maternal and Child Health Services Block Grant	CFDA #93.994
- H. The threshold for distinguishing between Types A and B programs was \$737,027.
- I. Dakota County was determined to be a low-risk auditee.

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INTERNAL CONTROL

ITEM ARISING THIS YEAR

05-1 County Sheriff's Office

During our review of the County Sheriff's Office we noted the following issues:

- When an inmate is incarcerated, the County takes possession of his or her monetary assets. The assets are deposited into a bank account, and the financial transaction is recorded in an inmate trust account. Timely reconciliations between the inmate account and the bank account should be performed to ensure accuracy of the account records. Dakota County has not been reconciling these accounts in a timely manner.

We recommend the County Sheriff ensure that the inmate trust account be reconciled to the bank account in a timely manner.

- Blank check stock should be adequately secured to prevent unauthorized use. We noted the blank check stock for the inmate checking account included the bank's routing number, check number, and signature line preprinted in MICR ink. The blank stock is stored on the printer in the inmate intake area.

We recommend the County Sheriff ensure that the blank stock be stored in a secure area to limit the possibility of unauthorized use.

- Accounting duties over checking accounts are not adequately segregated. One person has the responsibility for collecting the cash receipts, preparing and making deposits, writing and signing checks, and performing the checking account reconciliation. These duties are incompatible for one person to perform and should be segregated to more than one person so that errors can be detected in a timely manner.

We recommend that the County Sheriff review the responsibilities within the Sheriff's Office accounting function and assign duties so that duties are adequately segregated. If it is not practical to segregate the duties, the Sheriff should implement oversight procedures to ensure that all transactions are recorded, checks issued are supported by original documentation and are approved by a supervisor, and the checking account is reconciled to the accounting records monthly and reviewed by a supervisor.

Client's Response:

- *The County Sheriff's staff is currently reconciling the Inmate Trust Account to the bank account on a monthly basis.*
- *The County Sheriff's blank check stock will be stored in a secure area.*
- *The County Sheriff's office has reviewed staff responsibilities regarding cash handling functions, and has split the duties between 2 staff members to ensure proper segregation of duties regarding cash receipts, preparing and making deposits, writing and signing checks, and performing account reconciliations.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

05-2 Canteen Operations - Recording Receipts and Disbursements

Pursuant to Minn. Stat. §§ 385.04 and 385.07, the county treasurer is to keep a full and accurate account of all county money received and paid, and deposit county funds intact in the name of the county. We noted many financial transactions relating to the County Sheriff's canteen sales not reported to the Treasurer-Auditor or recorded on the general ledger. In addition, the recorded canteen activity was reported in an agency fund that does not allow for the presentation of revenues and expenditures.

We recommend the County Sheriff provide a full and accurate account of the financial activity of canteen operations that can be recorded in a governmental fund on the County's general ledger.

Client's Response:

*Effective August 1, 2006, all Canteen operations have been moved to the General Fund on the County's general ledger.*

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

*Schedule 1*  
*(Continued)*

- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Dakota County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

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PATRICIA ANDERSON  
STATE AUDITOR

**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  
Dakota County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dakota County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 5, 2006. We did not audit the financial statements of the Dakota County Community Development Agency, a component unit of Dakota County. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dakota County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, the County notified us of a theft that occurred in the operations of the Sheriff's Office. We reviewed the internal controls in this area and noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Dakota County in a separate letter dated June 5, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dakota 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Dakota County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 05-2.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 5, 2006

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Dakota County

### Compliance

We have audited the compliance of Dakota County 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, 2005. Dakota County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Dakota County's financial statements include the operations of the Dakota County Community Development Agency component unit, which expended \$19,822,890 in federal awards during the year ended June 30, 2005, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Community Development Agency because the Community Development Agency had a separate Single Audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dakota 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 on the County's compliance with those requirements.

In our opinion, Dakota 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, 2005.

#### Internal Control Over Compliance

The management of Dakota 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dakota County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 5, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 5, 2006

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Education National School Lunch Program	10.555	\$ 50,658	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	883,339	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	<u>39,712</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>		<b>\$ 973,709</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>			
Direct			
Community Development Block Grant	14.218	\$ 1,693,151	\$ 1,693,151
Supportive Housing Demonstrative Program	14.235	383,660	-
HOME Investment Partnerships Program	14.239	<u>200,595</u>	<u>200,595</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 2,277,406</b>	<b>\$ 1,893,746</b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	\$ 109,802	\$ -
Crime Victim Assistance	16.575	37,399	-
Byrne Formula Grant Program	16.579	327,792	-
Byrne Memorial Grant	16.580	469,993	-
National Incident Based Reporting System	16.733	366,792	-
Direct			
State Criminal Alien Assistance Program (SCAAP)	16.606	44,959	-
Crime Victim Assistance Discretionary Funds	16.582	<u>5,000</u>	<u>-</u>
<b>Total U.S. Department of Justice</b>		<b>\$ 1,361,737</b>	<b>\$ -</b>
<b>U.S. Department of Labor</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Senior Community Service Employment Program (SCSEP) WIA Cluster	17.235	\$ 126,814	\$ -
WIA Adult Program	17.258	113,285	-
WIA Youth Activities	17.259	168,220	-
WIA Dislocated Workers	17.260	<u>309,371</u>	<u>-</u>
<b>Total U.S. Department of Labor</b>		<b>\$ 717,690</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

Schedule 2  
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 4,701,521	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	59,095	-
Alcohol Traffic Safety and Drunk Driving	20.601	7,386	-
<b>Total U.S. Department of Transportation</b>		<b>\$ 4,768,002</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>			
Direct Special Education - Grants for Infants and Families with Disabilities	84.181	<b>\$ 107,969</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health Immunization Research, Demonstrations, Public Information, and Education - Training and Clinical Skills Improvement Project	93.185	\$ 52,477	\$ -
Immunization Grants	93.268	11,880	-
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	588,902	-
Temporary Assistance for Needy Families (TANF)	93.558	166,835	-
Refugee and Entrant Assistance	93.576	7,500	-
Maternal and Child Health Services Block Grant	93.994	305,941	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	239,892	-
Temporary Assistance for Needy Families (TANF)	93.558	1,641,185	-
Child Care and Development Block Grants	93.575	60,552	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	7,865,524	-
Children's Justice Grant	93.643	1,431	-
Foster Care Title IV-E	93.658	493,632	-
Social Services Block Grant Title XX	93.667	1,431,733	-
Chafee Foster Care Independence Program	93.674	27,993	-
Medical Assistance Program	93.778	68,687	-
Block Grants for Community Mental Health Services	93.958	75,280	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	95,864	-
Direct Transitional Living for Homeless Youth	93.550	191,425	-
Early Learning Fund	93.577	174,378	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 13,501,111</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

Schedule 2  
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 132,576	\$ -
Urban Area Security Initiative	97.008	278,296	-
Boating Safety Financial Assistance	97.012	10,000	-
Cooperating Technical Partners	97.045	374,781	-
Emergency Response Prevention Grant	97.067	64,278	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 859,931</b>	<b>\$ -</b>
<b>Total Federal Awards</b>		<b>\$ 24,567,555</b>	<b>\$ 1,893,746</b>

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Dakota County. The County's reporting entity is defined in Note I to the financial statements.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue reported in the County's annual financial report	\$ 24,846,055
Byrne Formula Grant Program deferred in 2004 and recognized in 2005	(86,345)
WIA Adult Program deferred in 2004 and recognized in 2005	(10,628)
WIA Youth Program deferred in 2004 and recognized in 2005	(15,926)
State and Community Highway Safety deferred in 2004 and recognized in 2005	(1,031)
Block Grants for Prevention and Treatment of Substance Abuse deferred in 2004 and recognized in 2005	(17,644)
Block Grants for Prevention and Treatment of Substance Abuse received more than 60 days after year-end, deferred in 2005	41,728
State Domestic Preparedness Equipment Support Grant deferred in 2004 and recognized in 2005	(166,154)
Urban Area Security Initiative deferred in 2004 and recognized in 2005	(22,500)
	<hr/>
Total Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 24,567,555</u>