

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

DAKOTA COUNTY
HASTINGS, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

Year Ended December 31, 2007



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, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Dakota County.
- B. Deficiencies involving internal control were disclosed by the audit of the financial statements of Dakota 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*." None were material weaknesses.
- 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:

Farm and Ranch Lands Protection Program	CFDA #10.913
Workforce Investment Act Cluster	
WIA Adult Program	CFDA #17.258
WIA Youth Activities	CFDA #17.259
WIA Dislocated Workers	CFDA #17.260
Highway Planning and Construction	CFDA #20.205
Center for Disease Control and Prevention	CFDA #93.283
Title IV-E Foster Care	CFDA #93.658
Title XX Social Services Block Grant	CFDA #93.667

H. The threshold for distinguishing between Types A and B programs was \$785,466.

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

ITEMS ARISING THIS YEAR

07-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

The following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); and
- expenditure/expense processing.

The County has documentation on most of these areas. However, each department's accounting procedures that document internal controls are kept in the individual department's computer files. In order for Financial Services staff to perform periodic assessments of the County's internal controls, they would have to contact each department to get the current documentation.

We recommend that County management centralize the documentation of the significant internal control over financial reporting. Management should then perform and document a County-wide assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

This relates to a new requirement that organizations not only have internal controls documented but that there is an active process to review those documents on a frequent basis. As noted by the auditor, the county has developed policies in distinct areas, and there is a need to consolidate, communicate, and monitor these county-wide. This need had been recognized and staff assigned to a staff person who has since left the office. Progress was delayed in the transition. We will devote renewed staff attention to this effort in 2008.

Currently, the county does generally review internal controls as systems or policies change. Petty cash funds are audited annually, and as a part of that effort internal controls reviewed and suggestions for improvements made as needed.

07-2 Audit Adjustment

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 of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal control over financial reporting. During our audit, we proposed a material adjustment that resulted in a significant change to the County's financial statements. Net assets of \$31,788,119 were reclassified between restricted for debt service and unrestricted to report unspent bond proceeds in the same category as the bonds payable they relate to. Internal control over financial reporting was weakened by the departure of accounting staff, which resulted in the temporary loss of financial statement preparation expertise.

We recommend that the County design internal control over financial reporting to detect misstatements in the financial statements. The controls should include a review of draft financial statements by a qualified individual for compliance with generally accepted accounting principles and to identify potential misstatements.

Client's Response:

We acknowledge the finding, and also note that this item is reported by the auditor for 2007 under the recently-issued Auditing Standard 112 Communicating Internal Control Related Matters Identified in an Audit. This new standard requires a reporting of any finding where the auditor identifies and corrects a misstatement which the client had not identified. This type of adjustment would not have risen to the level of an audit finding in previous years.

In preparing the 2007 statements, the county faced a number of factors that resulted in reduced time available for final review of the statements. Staff turnover (3 staff with responsibilities related to preparing financial statements had left) delayed preparation of reports and left less time for review. These positions have now been re-filled, and staff are being trained. Another complication is that in preparing the Comprehensive Annual Financial Report (CAFR), there are some additional "full accrual" transactions that are made solely for the CAFR, not for our operational financial statements. These entries are made typically in May or June and do not go through our regular financial system and receive less regular review. The entry in question was one of those.

The county has and is taking a number of steps to identify and correct misstatements prior to the auditor's review. Staff meet monthly with departments to review financial statements and discuss any significant variances, which aid in identifying potential misclassifications. In addition, we are reviewing a software product (CAFR2000) that is expected to provide time savings for producing the CAFR with improved system controls built in. This should then also provide us more time to review the final statements (and identify and correct any misstatements) prior to turning them over to the auditors.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

None.



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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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Dakota County Community Development Agency, as described in our report on Dakota County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dakota 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County'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 considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-1 and 07-2 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 Dakota County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are not material weaknesses.

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.

Dakota County's written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Dakota County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 26, 2008

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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, 2007. 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 \$20,237,621 in federal awards during the year ended June 30, 2007, 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 it 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, 2007.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Dakota County's internal control.

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

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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2008. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming opinions on Dakota 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 others within the County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 26, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Child Nutrition Cluster			
School Breakfast Program	10.553	\$ 15,950	\$ -
National School Lunch Program	10.555	21,798	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,099,581	-
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Food Stamp Program	10.561	6,321	-
Direct			
Farm and Ranch Lands Protection Program	10.913	<u>4,183,556</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>\$ 5,327,206</u>	<u>\$ -</u>
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grant	14.218	\$ 2,121,771	\$ 2,121,771
Supportive Housing Demonstrative Program	14.235	438,140	-
HOME Investment Partnerships Program	14.239	<u>1,386,891</u>	<u>1,386,891</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 3,946,802</u>	<u>\$ 3,508,662</u>
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	\$ 68,411	\$ -
Byrne Formula Grant Program	16.579	85,390	-
Edward Byrne Memorial Justice Assistance	16.738	73,851	-
Direct			
State Criminal Alien Assistance Program (SCAAP)	16.606	<u>46,442</u>	<u>-</u>
Total U.S. Department of Justice		<u>\$ 274,094</u>	<u>\$ -</u>
U.S. Department of Labor			
Passed Through Minnesota Department of Employment and Economic Development			
Senior Community Service Employment Program (SCSEP)	17.235	\$ 82,929	\$ -
Workforce Investment Act Cluster			
WIA Adult Program	17.258	418,650	-
WIA Youth Activities	17.259	125,581	-
WIA Dislocated Workers	17.260	<u>383,457</u>	<u>-</u>
Total U.S. Department of Labor		<u>\$ 1,010,617</u>	<u>\$ -</u>

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 1,054,659	\$ -
Federal Transit Capital Assistance Grant	20.500	323,456	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	3,051	-
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	<u>27,600</u>	<u>-</u>
Total U.S. Department of Transportation		<u>\$ 1,408,766</u>	<u>\$ -</u>
U.S. Environmental Protection Agency			
Direct			
Nonpoint Source Implementation Grants	66.460	\$ 42,499	\$ -
Regional Wetland Program Development Grants	66.461	<u>6,729</u>	<u>-</u>
Total U.S. Environmental Protection Agency		<u>\$ 49,228</u>	<u>\$ -</u>
U.S. Department of Education			
Direct			
Special Education - Grants for Infants and Families with Disabilities	84.181	<u>\$ 110,088</u>	<u>\$ -</u>
U.S. Elections Assistance Commission			
Passed through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	<u>\$ 164,670</u>	<u>\$ -</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	\$ 5,000	\$ -
Projects for Assistance in Transition from Homelessness (PATH)	93.150	20,706	-
Immunization Research, Demonstration, Public Information and Education - Training and Clinical Skills Improvement Projects	93.185	48,458	-
Immunization Grants	93.268	21,270	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	660,393	-
Temporary Assistance for Needy Families (TANF)	93.558	246,115	-
Refugee and Entrant Assistance	93.576	11,512	-
Maternal and Child Health Services Block Grant	93.994	284,420	-

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Family Preservation and Support Services	93.556	200,118	-
Temporary Assistance for Needy Families	93.558	1,453,528	-
Block Grant - Child Care and Development	93.575	6,660,250	-
Community Based Child Abuse Prevention Grant	93.590	17,017	-
Foster Care Title IV-E	93.658	993,976	-
Social Services Block Grant Title XX	93.667	1,431,043	-
Chafee Foster Care Independence Program	93.674	63,257	-
Medical Assistance Program	93.778	81,118	-
Block Grant for Community Mental Health Services	93.958	7,480	-
Direct			
Transitional Living for Homeless Youth	93.550	195,561	-
Total U.S. Department of Health and Human Services		\$ 12,401,222	\$ -
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Boating Safety Financial Assistance	97.012	\$ 25,135	\$ -
Emergency Management Performance	97.042	50,937	-
Cooperating Technical Partners	97.045	95,899	-
Homeland Security Grant Program	97.067	1,317,540	-
Total U.S. Department of Homeland Security		\$ 1,489,511	\$ -
Total Federal Awards		\$ 26,182,204	\$ 3,508,662

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 Dakota County. The County's reporting entity is defined in Note I to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.