

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**MANAGEMENT AND COMPLIANCE REPORT
FOR THE METROPOLITAN COUNCIL
OF THE TWIN CITIES AREA**

YEAR ENDED DECEMBER 31, 2008

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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**METROPOLITAN COUNCIL OF
THE TWIN CITIES AREA**

Year Ended December 31, 2008



Management and Compliance Report

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

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METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

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METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the Metropolitan Council.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Metropolitan Council 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*." The significant deficiency is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Metropolitan Council 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 the Metropolitan Council 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:
- | | |
|-----------------------------------|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Federal Transit Cluster | |
| Capital Investment Grants | CFDA #20.500 |
| Formula Grants | CFDA #20.507 |
- H. The threshold for distinguishing between Types A and B programs was \$3,000,000.
- I. The Metropolitan Council was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Audit Adjustments

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. Statement on Auditing Standards 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified the following material adjustments:

- Land was decreased by \$5,191,817, deferred revenue was decreased by \$2,484,000, and loss on sale of capital assets was increased by \$2,707,817 in the Metro Transit Light Rail Enterprise Fund.
- Deferred revenue was decreased by \$227,990, investment income was increased by \$366,497, and interest and fiscal charges was increased by \$138,507 in the Metro Transit Light Rail Enterprise Fund.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, by definition, independent external auditors cannot be considered part of the Council's internal control.

We recommend the Council establish internal controls necessary to determine that all adjusting entries are made to ensure the Council's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

The Council will add documentation (sign-off) to financial system journal entries indicating corresponding entries have been made in fixed asset management records where appropriate. In addition, deferred revenue accounts will be reviewed at year-end and appropriate CAFR adjustments will be made to report activity in accordance with Generally Accepted Accounting Principles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

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*

Council Members
Metropolitan Council of the Twin Cities Area

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Metropolitan Council, a component unit of the State of Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 25, 2009. 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 Metropolitan Sports Facilities Commission component unit as described in our report on the Metropolitan Council'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 the Metropolitan Council'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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Council'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 Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency 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 Metropolitan Council'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 deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Metropolitan Council'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, the Metropolitan Council complied with the material terms and conditions of applicable legal provisions.

The Metropolitan Council's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Council's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Metropolitan Council members, audit committee, management, others within the Metropolitan Council, 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 25, 2009

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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

Council Members
Metropolitan Council of the Twin Cities Area

Compliance

We have audited the compliance of the Metropolitan Council 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, 2008. The Metropolitan Council'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 Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

The Metropolitan Council's financial statements include the operations of the Metropolitan Sports Facilities Commission component unit, which expended no federal awards during the year ended December 31, 2008. Our audit, described below, did not include the operations of the Metropolitan Sports Facilities Commission because the Commission was audited by other auditors.

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 the Metropolitan Council'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 Council's compliance with those requirements.

In our opinion, the Metropolitan Council 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, 2008.

Internal Control Over Compliance

The management of the Metropolitan Council 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 Council'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 Council'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 Council'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 Council'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 the Metropolitan Council'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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Metropolitan Council, a component unit of the State of Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 25, 2009. We did not audit the financial statements of the Metropolitan Sports Facilities Commission component unit as of and for the year ended December 31, 2008. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the Metropolitan Council'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 Metropolitan Council members, audit committee, management and others within the Council, 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 25, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
Direct				
Shelter Plus Care	14.238	MN46C300001	\$ 322,565	\$ -
Shelter Plus Care	14.238	MN46C400001	(21,977)	-
Shelter Plus Care	14.238	MN46C407001	42,652	-
Shelter Plus Care	14.238	MN46C501023	137,791	-
Shelter Plus Care	14.238	MN46C607007	22,859	-
Shelter Plus Care	14.238	MN46C707007	50,644	-
Shelter Plus Care	14.238	MN46C701023	489,183	-
Shelter Plus Care	14.238	MN46C700029	406,625	-
Shelter Plus Care	14.238	MN46C700035	326,643	-
Total CFDA #14.238			\$ 1,776,985	\$ -
Public and Indian Housing	14.850	MN16300000108D	256,795	-
Section 8 Housing Choice Vouchers	14.871	MN163VO/MN163AF	47,482,793	-
Public Housing Capital Fund	14.872	MN46P16350108	167,567	-
Passed Through Minnesota Housing Finance Agency				
Housing Opportunities for Persons with AIDS	14.241	C-23762 #1 & #2	387,258	-
Total U.S. Department of Housing and Urban Development			\$ 50,071,398	\$ -
U.S. Department of the Interior				
Passed Through Minnesota Public Facilities Authority				
U.S. Geological Survey Research and Data Collection	15.808	07CRPA0100	\$ 25,000	\$ -

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

***Schedule 2
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Direct				
Federal Transit Administration				
Highway Planning and Construction				
Congestion Mitigation/Air Quality (CMAQ)				
2004 Section 5307	20.205	MN90-X201	\$ 512,128	\$ -
Federal Transit Capital Investment Grants				
2002 Section 5309	20.500	MN-03-0057	\$ 187,393	\$ -
2000 Section 5309	20.500	MN-03-0066	134,376	-
1999 Section 5309	20.500	MN-03-0067	5,986	-
2000 - 2001 Section 5309	20.500	MN-03-0083	664	-
2003 Section 5309	20.500	MN-03-0085	19,275	-
2003 Section 5309	20.500	MN-03-0086	4,601	-
2000 Section 5309	20.500	MN-03-0087	(2,601)	-
2002 - 2005 Section 5309	20.500	MN-03-0097	4,759,959	-
2003 Section 5309	20.500	MN-03-0101	3,013	-
2003 Section 5309	20.500	MN-03-0103	308,967	-
2003 Section 5309	20.500	MN-03-0104	458	-
2004 - 2005 Section 5309	20.500	MN-03-0105	486,939	-
2003 - 2004 Section 5309	20.500	MN-03-0106	522,836	-
2004 - 2005 Section 5309	20.500	MN-03-0123	2,846,753	-
2006 Section 5309	20.500	MN-03-0200	11,135,527	-
2007 Section 5309	20.500	MN-04-0010	1,598,231	-
2007 Section 5309	20.500	MN-04-0010	1,433,170	-
2007 Section 5309	20.500	MN-04-0012	13,175,269	-
2006 Section 5309	20.500	MN-04-0015	173,620	-
2006 Section 5309	20.500	MN-04-0018	2,725	-
2006 Section 5309	20.500	MN-05-0018	800,814	-
2006 Section 5309	20.500	87194CFMS	92,272	-
Total CFDA #20.500			\$ 37,690,247	\$ -

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

*Schedule 2
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Direct				
Federal Transit Administration (Continued)				
Federal Transit Formula Grants				
2002 Section 5307	20.507	MN-37-X006	\$ 89,049	\$ -
2001 Section 5307	20.507	MN-90-X159	9,977	-
2002 Section 5307	20.507	MN-90-X164	260,799	-
2002 Section 5307	20.507	MN-90-X172-00	95,246	-
2002 Section 5307	20.507	MN-90-X174	60,724	-
2002 Section 5307	20.507	MN-90-X177	921,757	-
2003 Section 5307	20.507	MN-90-X185	271,483	-
2000 Section 5307	20.507	MN-90-X189	48,654	-
2002 - 2003 Section 5307	20.507	MN-90-X190	336,199	-
2004 Section 5307	20.507	MN-90-X199	33,580	-
2003 Section 5307	20.507	MN-90-X204	73,498	-
2004 Section 5307	20.507	MN-90-X208	3,037	-
2003 - 2005 Section 5307	20.507	MN-90-X215	1,063,131	-
2005 Section 5307	20.507	MN-90-X220	(67,015)	-
2005 Section 5307	20.507	MN-90-X224	12,613,199	-
2006 Section 5307	20.507	MN-90-X226	373,046	-
2006 Section 5307	20.507	MN-90-X230	74,450	-
2006 Section 5307	20.507	MN-90-X235	3,668,126	-
2006 Section 5307	20.507	MN-90-X238	31,332,891	-
2007 Section 5307	20.507	MN-90-X242	148,246	-
2007 - 2008 Section 5307	20.507	MN-90-X249	10,118,477	-
2007 Section 5307	20.507	MN-95-X002	667,185	-
2008 Section 5307	20.507	MN-95-X006	147,032	-
2008 Section 5307	20.507	MN-95-X007	498,372	-
2007 - 2008 Section 5307	20.507	MN-95-X001	2,969,278	-
2007 Section 5307	20.507	MN-95-X001-00	50,240	-
2006 Section 5307	20.507	MN-90-217	20,116	-
2006 Section 5307	20.507	MN-90-230	1,920,763	-
2006 Section 5307	20.507	MN-90-241	1,653,580	-
2004 Section 5307	20.507	MN-90-175	718,692	-
2007 - 2008 Section 5307	20.507	MN-90-249	419,422	-
2007 - 2008 Section 5307	20.507	MN-90-250	2,721,120	-
Total CFDA #20.507			\$ 73,314,354	\$ -

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

*Schedule 2
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Direct				
Federal Transit Administration (Continued)				
Job Access/Reverse Commute (JA/RC)				
2002 Section 5307	20.516	MN-37-X006	\$ 689,756	\$ 689,756
2006 - 2007 JARC New Freedom	20.516	MN-57-002	43,345	-
2008 JARC Section 5316	20.516	92811	70,000	-
2006 Section 5307	20.516	MN-37-X011	564,532	564,532
Total CFDA #20.516			\$ 1,367,633	\$ 1,254,288
Passed Through Minnesota Department of Transportation				
Airport Improvement Program	20.106	92811	\$ 38,660	\$ -
Highway Planning and Construction				
Needs Analysis of Bicycle and Pedestrian Connections	20.205	92190	\$ 90,091	\$ -
Planning 2008 Section 5303	20.205 (b)	92300	2,869,663	-
Total CFDA #20.205			\$ 2,959,754	\$ -
Federal Transit Formula Grants				
Northstar Commuter Rail Funding Grant	20.507	MN-03-X201	\$ 20,001,478	\$ -
Total U.S. Department of Transportation			\$ 135,884,254	\$ 1,254,288
U.S. Environmental Protection Agency				
Passed Through Minnesota Public Facilities Authority				
Capitalization Grants for Clean Water State Revolving Funds	66.458	MPFA-07-0019-R-FY08	\$ 44,987,205	\$ -

METROPOLITAN COUNCIL OF THE TWIN CITIES AREA

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Rail and Transit Security Grant Program	97.075	2005-GB-T5-012	\$ 204,005	\$ -
Rail and Transit Security Grant Program	97.075	2006-RL-T6-006	63,644	
Total U.S. Department of Homeland Security			\$ 267,649	\$ -
Total Federal Awards			\$ 231,235,506	\$ 1,254,288

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 the Metropolitan Council. The Council's reporting entity is defined in Note 1.A. to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the Council. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis. Some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.